As of 11 a.m. ET **DJIA** 10428.05 ▼ 1.14% **FTSE 100** 5412.88 ▲ 0.28% **Nikkei 225** 10546.44 **Closed** **Shanghai Comp.** 3277.14 ▲ 0.45% **Hang Seng** 21872.50 ▲ 1.75% **Sensex** 17464.81 ▲ 0.70% **S&P/ASX 200** 4870.64 ▲ 0.77%

China's new year's resolution: keep making deals

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Indonesia loses a president for all people

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Heavy snow storm disrupts travel in Beijing

Reuters

A policeman stands guard in front of the portrait of Mao Zedong in Tiananmen Square on Sunday as a heavy snowfall blanketed Beijing. Hundreds of flights at the city's airport were canceled or delayed, while several key highways to outlying provinces had been closed or access restricted.

Asia is in prime spot to ride the recovery

By Alex Frangos

YEAR-END REVIEW: MARKETS & FINANCE | Pages 19-28

- Much talk, but little has changed on Wall Street
- For rebuilt markets, a test in 2010
- Asia: world champ for IPOs
- The dollar shifts focus
- A shining year for metals

Few expect Asia's stock markets to repeat their 2009 performance, in which those outside of Japan led the world out of the global financial abyss and produced some of the biggest market gains of the year.

But the year confirmed that Asia, led by China with its large government reserves and broadly solvent banking system, avoided the leverage problems that ignited the financial crisis in the West and is in a better position to take advantage of the global rebound.

"Markets always slow in the second year of a recovery," says Markus Rosgen, Asia equity strategist for Citigroup in Hong Kong. But he expects gains in the range of 9% to 14%, based on the all-country Asia ex-Japan index, helped along by healthy earnings among Asian companies.

While 2009's performance sowed optimism among investors, new challenges could damp the party mood, namely fears of rising interest rates, inflation, capital outflows and asset bubbles. Mr. Rosgen warns a resurgence of the U.S. dollar has historically coincided with down years in Asian markets.

Meanwhile, Japan's markets continued to struggle. The broad Topix index was only up 5.6%, even as the Nikkei Stock Average of 225 companies finished 19% higher at 10546.44.

Japan suffered from a collapse in exports early in 2009 as the global financial crisis reduced demand, and then a strong yen made its goods less competitive abroad. Hopes that a new government would make structural economic changes faded soon after it took power, and concern about deflation mounted.

Japan's markets have suffered their second "lost decade" in a row. The Nikkei is 44.3% below where it stood at the end of 1999. It is 72.9% below its peak near the end of 1989.

Japan's loss seemed to be South Korea's gain in 2009. Korea benefited as its cheap currency versus the Japanese yen and the dollar alllowed Korean car makers and electronics companies to win a bigger share of the export market. The benchmark Korea Composite Stock Price Index, or Kospi, rose 49.7%, its best year since 2005.

The best-performing Asian markets in 2009 were those that were most insulated from the world-wide collapse of trade. Indonesia's and India's domestically driven economies fall into that category. They also benefited from confidence-inspiring elections in 2009. Indonesian stocks rose 87% and India's Sensitive Index, or Sensex, rose 81%, but both countries face the risk of inflation in 2010.

What surprised many investors in 2009 was the ability of China, usually seen as an export-dependent economy, to quickly spur domestic demand. A giant government stimulus plan helped investment and consumption keep

Please turn to page 18

Google, India and limits of liberty

The rules of political speech on the Internet are usually pretty simple. In America, almost anything goes. In places like China, the censors call the shots. But in India—a boisterous democracy that's rife with religious and ethnic tension—the game is far trickier, as **Google** Inc. is discovering.

*By **Amol Sharma** in New Delhi and **Jessica E. Vascellaro** in San Francisco*

In September, lawyers at Google's New Delhi office got a tip from an Internet user about alarming content on the company's social networking site, Orkut. People had posted offensive comments about the chief minister of India's southern state of Andhra Pradesh, who had died just a few days earlier in a helicopter crash.

Google's response: It removed not just the material but also the entire user group that contained it, a person familiar with the matter says. The Internet giant feared the comments could heighten tensions at a time when thousands of mourners of the popular politician were emptying into the street.

The incident shows the treacherous terrain Google must navigate as it expands in India, the world's most-populous nation after China and a major growth market for Web searches, online advertising and mobile-phone software. As Google broadens its reach, it must increasingly tweak the way it operates to suit new cultures. While authoritarian countries pose well-known challenges, Google is learning that even democracies such as India can be fraught with legal and cultural complications. Its experience here could serve as a precedent for other Web companies.

Agence France-Presse/Getty Images

The Indian government has authority to curtail speech rights.

The nation of 1.2 billion is the world's largest democracy and in principle affords free speech to its citizens. But the country has a volatile mix of religious, ethnic and caste politics and a history of mob violence. So, the government has the authority to curtail speech rights in certain cases. India's Constitution encapsulates that gray zone: Free speech is subject to "reasonable restrictions" for such purposes as maintaining "public order, decency or morality."

Authorities say Internet companies in India, including **Yahoo** Inc., **Facebook** Inc. and Twitter, are expected to help the government enforce those standards online by removing objectionable mate-

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PAGE TWO

What's News—

European Pressphoto Agency

Soldiers in Yemen stand guard outside a government building in the capital Sunday. The U.S. and British embassies closed in response to threats by al Qaeda.

* * *

Business & Finance

■ **The Tokyo Stock Exchange** is launching a high-tech replacement to its trading platform in a move that may unleash a technology war among brokerages. The update, which has cost about $140 million so far, will enable the exchange to process trades in five milliseconds. **3**

■ **Japan asked** state-backed Development Bank of Japan to extend more financial support to Japan Airlines, in its latest move to assist the ailing carrier. **4**

■ **The U.S. central bank** must be open to raising interest rates to pop asset bubbles, Fed Chairman Bernanke said. **9**

■ **Samsung Electronics said** it sold 2.6 million LCD televisions with LED backlight technology in 2009, up from its initial target of two million, and forecast sales of 10 million units this year. **18**

■ **A milk recall in China evoked** an earlier scare involving melamine that prompted authorities to revise food-safety laws and pledge more transparency. **4**

■ **China announced** a tax that appears aimed at further discouraging transactions in shares that once were nontradable, a class of stock that accounts for roughly half the capital in most publicly traded companies. **6**

■ **The number of pirate attacks** and attempted hijackings of oil tankers hit a high in 2009, highlighting a geopolitical risk in the global oil market that could increase this year and push crude prices higher. **8**

■ **Hundreds of businesses** in the U.S. are clamoring to recover billions of dollars tied up in frozen auction-rate securities, a year after Wall Street firms agreed to $60 billion in settlements over the collapsed market for the investments. **8**

* * *

World-Wide

■ **The U.S. acknowledged** that it missed red flags that could have helped unravel the plot to bomb a U.S. airliner, but said there had been no "smoking gun" indicating the attack was coming. **9**

■ **The head of the U.N.'s** Afghan mission criticized Parliament's rejection of a majority of Karzai's cabinet nominees, citing concerns that it could delay the formation of a new government. **10**

■ **An Afghan insurgent** commander said the suicide bombing against the U.S. CIA that left eight people dead was retaliation for U.S. drone strikes in the Afghan-Pakistan border region. **10**

■ **Pakistani police officials said** the death toll from Friday's bombing of a sports ground has climbed above 90, making it one of the country's worst attacks in recent history. **11**

■ **Iran announced** new war games for February, coinciding with what it is now proclaiming as a deadline of next month for the West to agree to provide it nuclear fuel.

■ **Malaysia is bracing for** a potentially bruising linguistic battle after its government vowed to challenge a court ruling allowing local Roman Catholics to refer to God as Allah. **3**

■ **North Korea underlined** its desire for a peace treaty with the U.S. and South Korea before giving up nuclear weapons in a New Year's message. The statement broke little new ground in the dispute between the North and countries, led by the U.S., that have tried to persuade it to give up pursuit of nuclear weapons. **4**

■ **About 20,000 people** were left homeless in Tajikistan after a 5.1-magnitude earthquake leveled their homes in the Pamir Mountains. No deaths were reported in the quake, which struck Saturday.

ONLINE TODAY

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China has added a new sector to its list of those plagued by potential overcapacity: the vitamin C industry.

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The last decade has seen the financial world turned upside down. And these changes have been reflected by business jargon used to describe the decade.

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WORLD NEWS

Tokyo tries to keep pace in trading

Stock exchange puts in a replacement system to speed transactions with goal of attracting investors

By Alison Tudor

TOKYO—The **Tokyo Stock Exchange** on Monday is set to launch a high-tech replacement to its creaky trading platform after years of embarrassing trading gaffes, a move that may unleash a technology war between brokers in Japan.

Tokyo, the world's No. 2 stock market by market value after **NYSE Euronext**, is hoping to attract investors who depend on sophisticated software to make split-second trades. It also hopes to keep up with more-advanced markets in the U.S. and Europe and fast-growing markets in places such as Shanghai.

"I'm crossing my fingers. If they don't come, that's my mistake. It would be a disaster for me," said TSE Chief Executive Atsushi Saito.

The update, which has cost about $140 million so far, will enable the exchange to process trades in five milliseconds. Currently, trades can take two or three seconds, allowing slower brokerages to stay competitive and hobbling sophisticated traders who use computer algorithms to take advantage of split-second pricing changes.

"Suddenly the speed of one broker over another will be exposed in the eyes of investors," said Olivier Thiriet, head of client trading and execution in Asia Pacific for **Credit Suisse Group**.

Credit Suisse is executing trades on the TSE for about 70 brokers and hopes to attract more brokers who can't afford to upgrade. It sees its trading costs falling nearly 30%.

The move will help Asia catch up with the rise of quick-fire trading in the U.S. and Europe. Algorithmic trading now accounts for about 46% of trading on U.S. markets but only 13% in Asia, according to Aite Group.

"We have seen a series of visits from algorithmic-trading hedge funds from Hong Kong, New York and London," Mr. Saito said. "At the beginning they will be cautiously watching our progress, but they will gradually accelerate their participation."

Right: Tokyo Stock Exchange (TSE) president Atsushi Saito

The update will put Tokyo on par with the New York Stock Exchange but leave it behind the **London Stock Exchange Group**'s London market, which is down to three milliseconds ahead of a big upgrade planned for next year that will take it to less than a millisecond, according to a spokesman. Also some of the more sophisticated aspects of algorithmic-trading strategies still won't be possible at the Tokyo exchange's new speed.

Tokyo is wary of the rise of alternative platforms that offer faster, cheaper off-exchange trades. Systems such as BATS Exchange in the U.S. account for about 40% of trading there, though Mr. Saito says the Tokyo exchange still accounts for at least 93% of trading in its market.

The old system was plagued by delays and expensive mishaps. Last month, a Tokyo court ruled the exchange must pay $117 million to **Mizuho Securities** for a bungled trade in 2005, a decision that could lead the exchange operator to report a loss for a second year in a row.

Currently, trading in Tokyo is a relatively sluggish affair. Investors are used to picking up the phone and calling brokers, who can watch prices fluctuate on their computer screens and mentally calculate when to trade.

"Human beings using their own senses do most of the trading. Only a small fraction of traders use algorithms," said Atsushi Kannari, general manager of trading at Toyota Asset Management, which has over one trillion yen under management.

Mr. Kannari expects to increase his use of algorithmic trading gradually. He uses mostly Japanese brokerages as service providers but may switch to foreign firms if their execution performance is better.

Local brokers will face a big bill to upgrade their systems. "The cost is excessive," said Tamaki Ishikawa, general manager of operations at midsize Japanese brokerage **Aizawa Securities** Co. He estimated the cost to his company at 100 million yen. Aizawa will lose its direct link to the TSE after the upgrade and will trade via another firm. "I am scared of this new arrangement," Mr. Ishikawa said.

Many are struggling to develop their own trading systems and are outsourcing the problem. "We could not afford to invest a huge amount of capital in [information technology] ourselves to compete with overseas companies," said Michikazu Ando, executive officer in the institutional sales department of another midsize Japanese broker, **Mito Securities**. Mr. Ando outsourced his trading systems to Britain's **Fidessa Group** PLC.

The TSE says it is working with small brokers to ease their burden. For example, they are offering them terminals at the exchange where they can see real-time prices and execute trades.

The move could spur changes in the Japanese financial system. It could unleash the unbundling of services such as research and execution, as in the Europe and the U.S., and prompt the arrival of more research boutiques or execution-only shops. It also will spur greater use of dark pools, where traders can secretly unload large numbers of shares.

"Under the old system, execution traders were like artisans using their hands. But that style will be swept away," said Hiroyuki Yamaoka, head of trading at **Nissay Asset Management** Corp.

Malaysia says it will appeal 'Allah' ruling

By James Hookway And Celine Fernandez

KUALA LUMPUR—Malaysia is bracing for a potentially bruising linguistic battle after its government vowed to challenge a court ruling allowing local Roman Catholics to refer to God as Allah.

The legal tussle is raising tensions between Malaysia's ethnic-Malay Muslim majority, who represent about 60% of this resource-rich nation's population, and its large ethnic-Chinese and Indian minorities. Muslim groups are preparing demonstrations against a High Court ruling on New Year's Eve to overturn a three-year-old government ban on the Catholic Church using the Arabic word Allah as a translation for God in its Malay-language newspaper.

Government spokesman Tengku Sharifuddin Tengku Ahmad said Sunday the government will file an appeal against the ruling. Under Malaysian rules, an appeal must be filed within 30 days of a court judgment.

Among other things, the verdict potentially upholds the constitutional right of the church's weekly Herald newspaper to refer to Jesus Christ as the son of Allah—something that could anger many Muslims here and hurt Prime Minister Najib Razak's efforts to bring Malaysia's different religious groups closer together.

In comments Sunday shown on Malaysian television, Mr. Najib appealed for calm on a "very sensitive issue" and said the government is fully aware of Muslims' concerns. He said the government doesn't encourage any demonstrations about the court ruling.

The Arab word Allah has been used by Malay-speaking Christians for centuries, much as it is used by Christians in Arabic-speaking countries or in Indonesia, where, like Malaysia, the concept of a single deity was introduced by Arabic-speaking traders. Rev. Lawrence Andrew, editor of the Herald, says there's no other appropriate term for God in Malay.

Many powerful Islamic leaders here disagree, however, and fear some Muslims could be misled by Christians using the word Allah. They say the word should be reserved for Islam alone.

Now the controversy is quickly becoming a lightning rod for dissent against what some minority groups and moderate Muslims see as part of a broader Islamization of Malaysia that could deter investors.

Malaysia was, and many cases still is, a moderate, Muslim-majority nation. Its large Chinese and Indian minorities have encouraged trade links and investment, while multinationals helped create a large technology industry to complement Malaysia's sizable natural-gas reserves and agricultural resources to propel it into the ranks of the world's top 20 exporters.

The controversy is becoming a lightning rod for dissent against what some see as part of a broader Islamization.

Nonetheless, Muslim Shariah courts have spread quickly, encouraged, in part, by a government eager to co-opt the agenda of radical Muslims who hope to eventually turn Malaysia into Southeast Asia's first Islamic state. Muslim-oriented lobby groups exert a strong influence over the government.

In the past six months, a Shariah court for the first time sentenced a woman who drank beer in a hotel to be caned, while a group of Muslim men near Kuala Lumpur threw a severed cow's head onto the site of a proposed Hindu temple—a gross act of sacrilege.

"Despite official boasting about the country's diverse population and commitment to pluralism, Islam and the government have essentially merged," says Maznah Mohamad, a Malaysian political scientist at the National University of Singapore.

The New Year's Eve ruling, written by Judge Lau Bee Lan, was one of the few times that a secular institution has intervened to block the advance of an increasingly political interpretation of Islam in Malaysia. She ruled that under Malaysian law, Christians have "a constitutional right to use [the word] Allah."

The church's Herald newspaper filed a lawsuit in 2007 challenging a government ban on it using the word Allah as a translation for God, complaining that the prohibition discriminated against Malay-speaking indigenous tribes who converted to Christianity decades ago.

The newspaper has a circulation of about 14,000 and is available only in Catholic churches, although some Muslims have complained that it is possible to look up Malay-language material using the term Allah on the Herald's Web site.

Muslim activists mobilized almost as soon as the High Court's verdict was delivered. The National Union of Malaysian Muslim Students contended that Christian missionaries using the word Allah could trick Muslims into leaving their faith, and the influential Malaysian Islamic Youth Movement said it plans a demonstration against the verdict in Kuala Lumpur on Jan. 8.

The Malay-language Utusan Malaysia newspaper reported that the influential mufti of northern Perak state, Harussani Zakaria, called the verdict "an insult to Muslims in this country."

Some other Islamic figures, however, including Nik Aziz Nik Mat, spiritual leader of the opposition Pan-Malaysian Islamic Party, offered their tentative support for the ruling.

Former Prime Minister Mahathir Mohamad said Saturday that authorities should set strict conditions for non-Muslims using the word Allah to avoid to provoking a Muslim backlash.

"What I am afraid of is that the term 'Allah' might be used in such a way that could inflame the anger of Muslims, if [non-Muslims] were to use it on banners or write something might not reflect Islam," the state news agency Bernama reported him as saying.

China reports new milk scare

Recall from Shanghai dairy echoes 2008 scandal, spurs questions about new food-safety laws

By James T. Areddy

A milk recall in China evoked an earlier scare involving the chemical melamine that prompted authorities to revise food-safety laws and pledge more transparency.

While the recall involved products from only a single, relatively small Shanghai dairy, it was a reminder of continued attempts to profit from selling contaminated milk and raised questions of how significantly the industry has reformed itself following the 2008 scare, China's worst-ever food-safety scandal.

The producer involved in the latest recall, **Shanghai Panda Dairy** Co., was shut after its condensed and powdered milk were found to contain excessive amounts of melamine. That substance, used illicitly to fool quality-inspection testers because it can mimic the properties of protein, was blamed for killing six infants and sickening 300,000 more in the 2008 milk-industry scandal that prompted global worries about the quality of Chinese food products.

Shanghai Panda Dairy was among 22 companies implicated in the 2008 scandal and was briefly closed then. But among the recent findings, state media reported, was that the producer was selling melamine-tainted condensed milk that had been recalled in 2008 and should have been destroyed.

The latest recall, extending to seven Chinese provinces, was reported by state-run Xinhua news agency late on New Year's Eve and published in newspapers the following day. Shanghai Panda Dairy was shuttered and three of its top officials were detained by police, according to the reports. An affiliate company that may have supplied ingredients based in the province of Ningxia is being investigated, the reports said.

Also highlighted in the latest case is how willing authorities are to raise alarm bells publicly once a problem is found. So far, authorities haven't made an official announcement explaining the move or offering advice to consumers and retailers. While no products from Shanghai Panda turned up in spot checks of several stores in Shanghai, several retailers said they were unaware of problems with the brand.

Telephone calls weren't answered at the company or at the Shanghai Bureau of Quality and Technical Supervision, the government agency that reportedly led the action.

Also unclear was when the inspections were made and how quickly the recall was launched afterward, as media reports said several government agencies were involved in a widespread investigation.

Reuters

Security kept order as parents took children for medical tests at a hospital in Hefei, China, during the 2008 milk scandal.

Separately, a company based in a province neighboring Shanghai that produces Panda-branded milk in early December issued a statement that it said was meant to distance itself from local media reports that Panda milk had been found to contain melamine, saying that the reports involved an unrelated company.

Milk made by the company that made that statement, **Zhejiang Panda Dairy Products** Co., remained on the shelves of Chinese stores in some places. A person answering the phone Sunday at its offices said no one was available to comment.

A retailer selling Zhejiang Panda milk in Jiangsu province said, "I have absolutely no idea about melamine in Panda."

Once the discovery of melamine in milk became public shortly after the end of the Beijing Olympics in 2008, the Chinese public was outraged. Courts later handed down death sentences to farmers found guilty of adding melamine to products, and jailed for life the head of a north China dairy at the center of the scandal.

Bai Lin for The Wall Street Journal

Shanghai Panda Dairy's condensed and powdered milk has been recalled.

The domestic and international outcry over milk quality—followed by questions about pet food, lead in toys and suspect drywall—helped prompt China's legislature last March to pass tougher food-safety laws establishing nationwide standards, better testing systems and a method to recall problem products. The new law went into effect in June.

China has taken significant steps to improve the quality of its food and last week's dairy closure in Shanghai may reflect a strengthened inspection regime. Yet, last week's problem isn't the first involving melamine in milk in recent weeks. A dairy in Shaanxi province was closed after problems were detected in early December. Separately, in recent weeks, at least one official blamed for the scandal, China's former top quality supervisor, Li Changjiang, was appointed to another high-profile government position as head of a nationwide antipornography effort.

Demand for milk in China's hasn't suffered in the wake of the earlier melamine scares, and more marginal players could now be trying to boost their output by adding melamine again, said Chen Lianfang, senior consultant at **Beijing Orient Agribusiness Consulting** Co. He said China's dairy industry has worked hard to restore a positive image in the past year and he therefore doubts the problem is widespread, even if inspections now get stepped up.

If more producers are implicated, Mr. Chen said, "it will make a big impact on the whole food industry, not only on the dairy industry."

—Kersten Zhang and Bai Lin contributed to this artice.

Japan seeks more funding to support JAL

By Daisuke Wakabayashi

TOKYO—The Japanese government asked the state-backed Development Bank of Japan to extend more financial support to **Japan Airlines** Corp., in Tokyo's latest measure to assist the ailing carrier.

The bank on its Web site Sunday said it will consider and decide on the request in order to cooperate with the safe operation of Japan Airlines.

Local media reported that government ministers, including Deputy Prime Minister Naoto Kan, asked the state-owned bank to double JAL's existing credit line to 200 billion yen, or about $2 billion. A JAL spokeswoman declined to comment on the figure.

JAL shares plummeted 24% to 67 yen (72 cents) on Dec. 30, the last trading day of 2009, following reports that the carrier is studying court-led bankruptcy protection even as it explores an out-of-court alternative under the auspices of the government. The market reopens on Monday.

Increasing state-backed funding for JAL's bailout may be a way for the government to get the airline's private-sector lenders to agree to its plan for JAL. The banks are believed to be unhappy about the possibility of the airline filing for bankruptcy protection because that could force them to write off more of their loans to JAL. The banks have declined to comment.

The airline also is trying to get retirees to bend on pension benefits to ease its financial burden. Liquidation would force them to accept reduced benefits. The retirees are in the process of voting on whether to accept the proposal.

In an interview published on Sunday in the Asahi newspaper, Japan Airlines President Haruka Nishimatsu said he believed JAL could restructure without needing to seek bankruptcy protection.

JAL in November obtained a credit line of up to 100 billion yen from the Development Bank of Japan as part of the 125 billion yen it says it needs for the rest of the fiscal year ending March 31.

JAL is considering competing overtures from U.S. carriers **Delta Air Lines** Inc. and **AMR** Corp.'s American Airlines to form a close alliance. Despite its problems, JAL offers the potential for greater access to fast-growing Asian routes. It is currently a member of the oneworld airline alliance, which includes American.

Pyongyang pushes treaty, then disarmament

By Evan Ramstad

North Korea underlined its desire for a peace treaty with the U.S. and South Korea before giving up nuclear weapons in a New Year's message that is awaited by analysts annually because it is one of the rare statements of direction from its authoritarian government.

The statement broke little new ground in the long-running dispute between the North and countries, led by the U.S., that have tried to persuade it to give up its pursuit of nuclear weapons.

In an editorial run in several state-run newspapers and broadcasts, the government said it wanted to "establish a lasting peace system on the Korean peninsula and make it nuclear-free through dialogue and negotiations."

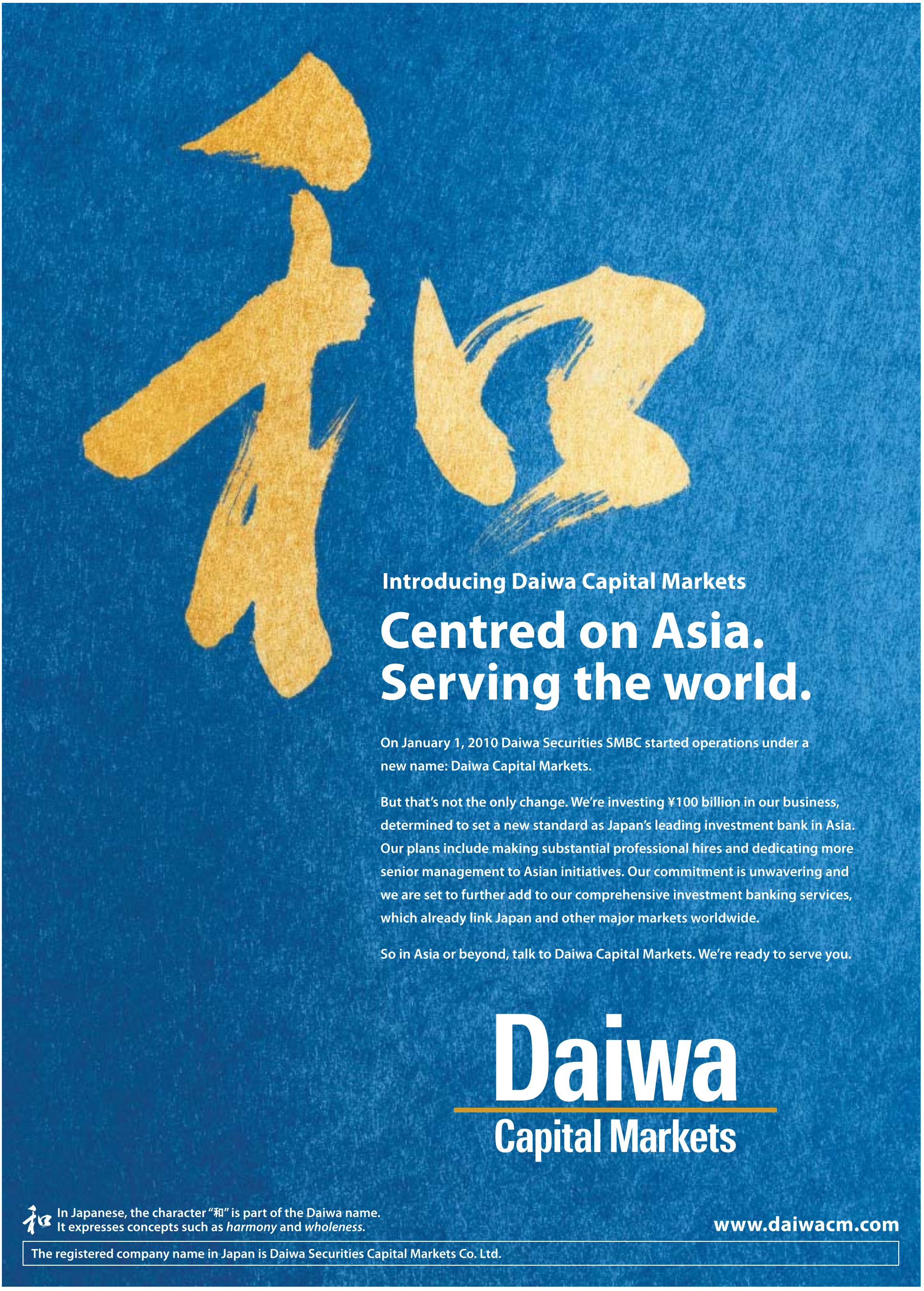
The sequence is considered important because the U.S. wants North Korea to stop building nuclear weapons before it will agree to a peace treaty that would formally end the Korean War.

North Korea's annual message often sends a signal about economic priorities and has less often been used to discuss the nuclear-weapons dispute. In December, the U.S. envoy to North Korea, Stephen Bosworth, traveled to Pyongyang to gauge its willingness to return to aid-for-disarmament talks with the U.S., China, Japan, Russia and South Korea. North Korean diplomats acknowledged the need for talks but gave no commitment to the so-called six-party process.

The statement made general references to economic improvement, such as encouraging greater output of light industry. North Korea has been cut off from economic trade by numerous sanctions imposed by the United Nations as a penalty for its weapons pursuit. As a result, it suffers chronic shortages of food and energy.

As well, the North Korean government cracks down on private-market activity, including restrictions on travel and information. In the past month, it re-possessed private wealth by issuing new currency and imposing sharp limits on how much old money could be exchanged for new.

On Saturday, tens of thousands of people in Pyongyang rallied to support North Korea's policies for the new year, the Associated Press reported. It said the annual rally to support state policies for the year involved about 100,000 people.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More China companies turn green

Entrepreneurs and private citizens, independent of government policy, take greater initiative on environmental issues

By Jason Dean

BEIJING—Chinese entrepreneurs and private citizens are starting to become more active in trying to address concerns over global warming, a nascent trend that could have significant long-term impact on the ability of the world's largest greenhouse-gas emitter to curb its effects on the climate.

The shift is most pronounced among a small-but-growing group of private business executives, who are adjusting their business practices and helping to spread awareness more broadly among the public.

Wang Shi, the 58-year-old chairman of **China Vanke** Co., the country's largest housing developer, said he became concerned about global warming through mountain climbing, a hobby he took up in 1998. He had read the Ernest Hemingway story "The Snows of Kilimanjaro," and in 2002 went to Tanzania to scale the mountain in the title. He was surprised at what he found.

"I didn't see any snow," he says. "I did more research, and discovered that within 50 years...its glaciers could be entirely gone as well."

Mr. Wang is gradually replacing wood used in the interiors of Vanke's apartment buildings with recyclable materials. Vanke is using more solar and other renewable energy, and adopting prefabrication techniques, borrowed partly from Japan, that are less wasteful than standard Chinese construction.

Mr. Wang is building a new corporate headquarters in Shenzhen designed by Steven Holl, an American architect, that he aims to make the first building in China with a platinum ranking—the highest available—on the international Leadership in Energy and Environmental Design rating system for "green buildings."

"China is a big country," says Mr. Wang, who founded Vanke 25 years ago. "It should try to shoulder the responsibilities of a large country, and therefore China's companies need to shoulder their own responsibilities."

In 2004, Vanke's Mr. Wang and about 60 other businessmen founded the Society of Entrepreneurs and Ecology to promote awareness and action on climate change and other environmental issues. It now has 160 members, each of whom pays 100,000 yuan ($14,647) in annual dues. That means an annual budget of at least $2.3 million, not including other contributions like free rent—a hefty sum for a Chinese NGO.

Bloomberg News

Huang Ming, chairman and founder of Himin Solar Energy Group, in Dezhou, Shandong province in early December.

Courtesy of Wang Shi

Wang Shi, seen climbing China's Mount Yuzhu, was suprised to find no snow on Africa's Kilimanjaro.

SEE uses the funds for reforestation programs in China and educational efforts, and to help support more than 150 smaller environmental groups around the country.

On Dec. 8, at the beginning of the Copenhagen climate summit, the group joined several other organizations representing 200 business members to issue a communiqué pledging to reduce their companies' emissions and calling on governments to reach a deal including binding legal benchmarks.

Yang Peng, SEE's secretary-general, says the growing green consciousness is a natural outgrowth of China's development.

"In the past, people just wanted to get enough to eat. Now, many people live in nicer homes, and they're more concerned about the environment," he says. "Low carbon is a new idea, but it's spreading very fast."

Most of the focus in assessing China's climate-related practices has been on the government. That is logical, since Beijing, in addition to setting policy, plays an enormous direct role in the economy. The government has pledged to reduce China's carbon emissions relative to the size of its economy, but has refused to commit to outright emissions cuts. Some foreign officials and scientists have criticized China's stance and said it contributed to the failure of the Copenhagen summit to reach a breakthrough. China says it played a constructive role at the summit, but can only agree to a deal that treats developing nations fairly.

But the participation of private businesses and regular citizens in the world's most populous nation will also be a major factor in China's climate impact.

Until recently, there was little of the sort of nongovernmental activity on climate change and other environmental issues that is common in more-developed places like Europe, Japan and the U.S. Now, climate experts take heart in the increasing activities of some executives, educators and others—even if it is too early for them to have had major impact, and abundant examples remain of indifference and waste.

"We are starting to see a growing level of awareness of climate change among people" in China, says Barbara Finamore, China program director for the Natural Resources Defense Council, a New York-based environmental organization. Ms. Finamore points to educational efforts in schools and by the state media to make people aware of climate issues, as well as "forward-looking companies who recognize the importance of this issue and are taking a leading role in trying to encourage their government to do more."

Some executives are changing their personal, as well as corporate, behavior. Zhang Yue, chairman of **Broad Air Conditioner** Co., was one of China's first entrepreneurs to buy a private jet, back in 1997. About five years ago, he became aware of the huge volume of carbon dioxide produced by a single 3,000-kilometer trip on the jet. Since then, he has heavily restricted the jet's use, and he often takes commercial flights.

Mr. Zhang has also made emissions reduction a central mission of his company. Broad is a major producer of giant air conditioners used in buildings, and it specializes in chillers that don't use electricity, instead relying on other energy sources like natural gas and waste heat. Broad says its air conditioners have only 20% the carbon-dioxide emissions of electric models.

Still, Mr. Zhang, who considers himself a pioneer on climate-change issues in China, is pessimistic about the overall level of awareness in the country.

"Public understanding of energy conservation and emissions reduction is still woefully behind," he says, adding that more education and publicity of the issue by the government is needed.

Others see progress already. Huang Ming, the chairman of **Himin Solar Energy Group** Co., China's largest maker of rooftop solar water heaters, says the desire among some of his customers, particularly educated, urban residents, to use more-environmentally friendly devices is helping to boost Himin's sales.

If property companies like Vanke change their behavior, it could have an especially strong impact, since China has the largest building market in the world by floor space. Building operations create about one-sixth of China's total carbon emissions, according to the China Greentech Report 2009, published by a business consortium.

A separate report in October by the NRDC and Boston Consulting Group estimated that "moderate" energy conservation, affecting 5% of China's existing buildings and 60% of new buildings, would have an environmental impact equivalent to halting global air traffic for four months.

Bloomberg News

A worker produces solar vacuum tubes at a Himin factory in Dezhou, China. The company's chairman says customers' green goals are boosting sales.

Beijing to impose a tax on some stock sales

By James T. Areddy And Michelle Ng

SHANGHAI—Chinese authorities announced a tax that appears aimed at further discouraging transactions in a class of shares that accounts for roughly half the capital in most publicly traded companies.

On Thursday, China's State Council, or cabinet, said a 20% capital-gains tax will be applied on profits from the sale of shares that once were nontradable stock. The tax will be levied beginning Jan. 1 and will primarily affect holders of large corporate stakes who are selling the newly tradable stock for the first time.

The new tax is specifically targeted and likely won't directly impose costs on most regular investors, including individuals. Yet the impact of the tax could be broad; it will likely further discourage the biggest shareholders in many companies from selling their investments. That could underpin a market that in 2009 rose 80%.

The tax will apply only to sales of stock that once was nontradable, a class of shares that from the early days of stock trading in China represented government ownership and control over most publicly traded companies. For the average company, that class of stock once represented two-thirds of its capital, but now is roughly about a half. In 2005, China's government permitted companies to make those shares tradable, and from a technical standpoint most have done so.

Yet regulators also have taken steps to ensure the conversions of shares into tradable form didn't change much. Today, a large chunk of that share capital has never circulated on the open market—and now would be subject to tax if the original holder sells such shares. Other dampers on the circulation of the shares have included promises by big holders not to sell and regulatory requirements that sales of more than 1% of a company's capital must be transacted privately, off the exchanges.

Beijing's continued efforts to keep holders of such shares from doing much with them appear to be rooted in a worry that a flood of shares onto the Shanghai and Shenzhen stock exchanges would drown the markets in unwanted supply, pulling overall share prices lower. In the past decade, similar concerns have repeatedly shaken the confidence of China's investing public.

Today, for many Chinese companies, only a small amount of share capital actually circulates on the exchanges relative to Western markets, allowing government entities and other powerful players to exert control over corporate management even of publicly traded companies. One result is that public demand for shares often exceeds supply. Overall share values remain supported, making Chinese companies seem bigger than they might otherwise.

The new tax appears to push further into the future the date when the bulk of share-market capital becomes fully tradable.

China's benchmark Shanghai Composite Index of shares finished the year with an 80% rise, including Thursday's rise of 14,54 points, or 0.5%, to 3277.14. It remains well below the October 2007 high of 6124.04.

Investors in recent days have pushed shares higher in China partly on hope that new features might be introduced into the market, including stock-index futures and exchange-traded funds mirroring values of foreign stock markets.

In a statement on Thursday, the State Council offered few reasons for introducing the stock-trading tax but said it would affect only a limited number of investors. According to the state-run Xinhua news agency, the State Council said, "This rule, which targets high-income earners by adjusting their share of China's tax burden, is necessary and will promote the healthy development of China's capital markets."

Guoyuan Securities Co. analyst Simon Wang said the tax is the first of its kind in China, noting the country doesn't tax capital gains on ordinary trading. "It's too soon to predict what kind of impact the tax will have, but it's likely to boost the markets, because investors have an ingrained fear of formerly nontradable shares flooding the market," he said.

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WORLD NEWS

A record year for pirates

Number of attacks on oil tankers rose 40% in 2009, raising worries

By Spencer Swartz

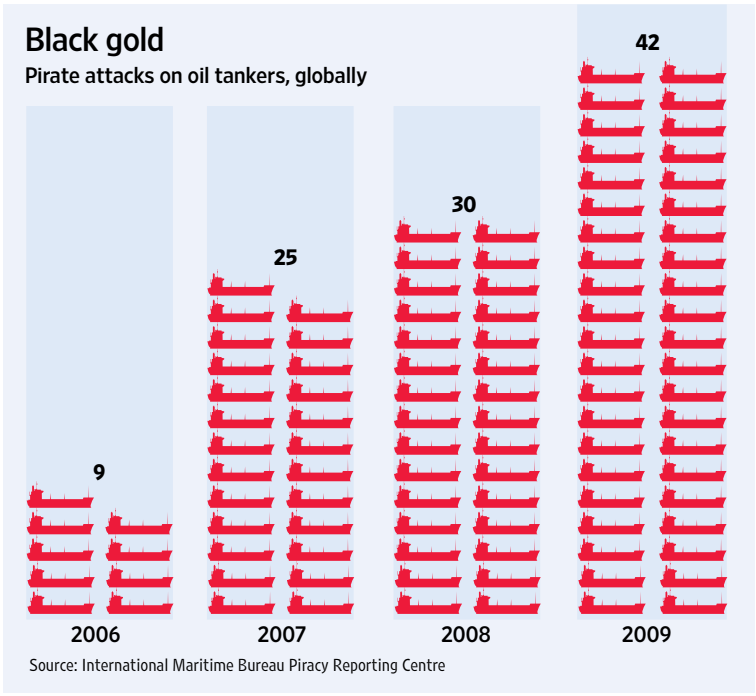
The number of pirate attacks and attempted hijackings of oil tankers hit a high in 2009, an industry group reported, highlighting a geopolitical risk in the global oil market that could increase this year and push crude prices higher.

The International Maritime Bureau's Piracy Reporting Centre in Malaysia said pirates last year attacked 42 oil-laden tankers around the world, a 40% rise from 2008.

Most of the attacks occurred many kilometers off the coast of Somalia and the Arabian Peninsula, in big bodies of water that oil tankers often pass through in order to access the Suez Canal and shorten shipping distances to European and U.S. markets.

"We haven't seen this level of attacks on oil tankers since our record-keeping started in 1992," said Cyrus Mody, a London-based manager at the International Maritime Bureau.

Most of 2009's hijacking attempts—by young, gun-toting men bent on trying to hustle ship owners into making ransom payments—failed. Only two tankers and their crews were hijacked, according to the center. Pirates continue to hold those two tankers—one a Greek-owned vessel carrying more than $100 million of crude from Saudi Arabia, the world's biggest oil exporter—for ransom off the Somali coast.



Oil prices rose about 80% during 2009, mainly because of expectations of an economic rebound and production cuts by the Organization of Petroleum Exporting Countries.

The U.S. Navy and European navies are increasingly patrolling the waters off Somalia and around the Gulf of Aden. China—which has a big interest in seeing oil-shipping lanes stay open as the world's second-biggest oil consumer after the U.S.—is looking at increasing its antipiracy naval measures in the Gulf of Aden.

Some operators privately say they want to see tanker crews carrying weapons to repel attacks. William Miller, a risk executive at Willis Group, a global insurance broker, says that option is fraught with legal and insurance problems. Many countries don't permit ships with armed crews in their waters.

Frozen-securities battle persists after settlement

By Liz Rappaport

Hundreds of businesses in the U.S. are clamoring to recover billions of dollars tied up in frozen auction-rate securities, a year after Wall Street firms agreed to $60 billion in settlements over the collapsed market for the investments.

Some 400 companies that sank their free cash into the investments hold more than $20 billion of auction-rate securities that can't be sold or are sharply reduced in value. That is forcing the holders to restrain their spending, thus creating yet another drag on the economy as it struggles to recover.

Buyers say banks and brokerage firms haven't given them enough help to get their money back. Wall Street firms generally maintain they have done all they agreed to and have helped many clients get access to needed cash.

Auction-rate securities are long-term borrowings engineered to have short-term features, with the interest rate reset at weekly or monthly auctions. Corporate treasurers and individuals loaded up on them, attracted by underwriters' promises of a relatively high-yielding investment that was as easy to tap as cash.

The $330 billion market collapsed nearly two years ago as the credit squeeze worsened. When some auctions failed, owing to insufficient bidders, Wall Street trading desks didn't step in as buyers of last resort. Investors were left without the promised quick access to their money. To get their money, in many cases they would have to hold the securities to maturity, often 20 years or more.

State regulators and the Securities and Exchange Commission accused banks and brokerage firms of having misled clients about the securities' safety and liquidity. Under settlements last year, banks and brokerage firms bought back auction-rate securities from the smaller, mostly individual, investors. But for larger and corporate buyers, which were deemed more sophisticated, the settlement required the securities firms only to make their "best efforts" to help.

Abercrombie & Fitch has $230 million, or 33% of its cash on hand, tied up in the long-term securities, bought from several banks, including **UBS** AG and **Bank of America** Corp. "If we had more cash, we'd be running different [business] models, with more stores and more inventory," said Abercrombie & Fitch treasurer Everett Gallagher.

The retailer plans to exercise its right to sell $72 million of the securities back to UBS this spring, he said. UBS is the only firm that committed to buying back the debt from all clients.

Others offered to lend to the retailer or sell the frozen securities at steep discounts. The "best efforts" called for in settlements essentially just mean the firms must offer corporate clients some remedy for their predicament. A spokesman for Bank of America said it has complied with its best-efforts obligation and will continue working to find solutions.

Executives of some companies stuck with the securities say regulators are doing little to force banks and brokerage firms that marketed them to step up. Abercrombie & Fitch and other buyers recently complained to the SEC and state regulators.

A spokesman for the New York attorney general's office, which led many of the settlement talks, said, "If there are instances in which firms are not making their best efforts, we will pursue those." The SEC has been hearing complaints and meeting with companies.

A group of 25 companies presented the Treasury and White House with a proposal to revive the moribund auction-rate-securities market. For that to happen, borrowers and buyers would have to trust securities dealers to conduct effective auctions—stepping in to buy if not enough investors did.

More than half of the outstanding auction-rate securities have been bought back at full face value by the municipalities, charities or other entities that issued the debt—as part of ordinary refinancings by the borrowers. Thanks to those refinancings, some corporate buyers did get their money back in full, in addition to the individual investors who were able to sell the securities back to banks and brokers.

Small-business owner Bob Bridgeman took a hit in the market. He sold a New Jersey oil-change and car-wash chain and placed the proceeds with a company that enables small businesses to invest their cash tax-free.

That company, **LandAmerica 1031 Exchange Services** Inc., invested its entire pool of about $200 million in auction-rate securities. After the market collapsed, the frozen investment helped tip LandAmerica into bankruptcy reorganization, said an attorney for the firm.

Even though Mr. Bridgeman is an individual investor, his investment got hung up because it had been pooled as part of a corporate investment, LandAmerica's. Mr Bridgeman, 60 years old, has been left without access to more than $1 million.

"It was a big portion of what I worked for my whole life," he said.

Mustafah Abdulaziz for The Wall Street Journal

Small-business owner Bob Bridgeman sold a New Jersey oil-change and car-wash chain, and placed the proceeds with a company that invested them in auction-rate securities.

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WORLD NEWS

U.S. says it missed signs of bomb plot

Al Qaeda threats prompt closures of U.S., British embassies in Yemen; U.S. to more than double antiterror aid to country

By Yochi J. Dreazen

WASHINGTON—The Obama administration acknowledged Sunday that U.S. intelligence agencies missed some red flags that could have helped unravel the plot to bomb a U.S. airliner on Christmas Day, but said there had been no single "smoking gun" indicating that the attack was coming.

The acknowledgment came as the U.S. State Department shut the U.S. Embassy in Yemen's capital of Sana'a on concerns about a possible attack by Al Qaeda in the Arabian Peninsula, the group that President Barack Obama on Saturday linked to the attempted Christmas Day bombing. The British Embassy in Yemen also was closed Sunday because of security concerns.

On Saturday, Gen. David Petraeus, who heads the U.S. military's Central Command, made a surprise visit to Yemen to begin coordinating the new aid. Washington and London announced over the weekend that they would jointly fund a new counterterrorism police unit in Yemen. The U.S. plans to more than double its counterterrorism support to Yemen this year, to as much as $190 million from $67 million in 2009.

John Brennan, the White House's top counterterrorism official, used a round of appearances on the Sunday morning talk shows to defend the administration's handling of the attempted attack. A 23-year-old Nigerian, Umar Farouk Abdulmutallab, allegedly tried to set off explosives that he had smuggled underneath his clothing onto a Northwest Airlines flight from Amsterdam to Detroit.

"There is no smoking gun," Mr. Brennan said on "Fox News Sunday." "There was no single piece of intelligence that said, 'This guy is going to get on a plane.' "

Mr. Brennan, who is leading the White House's review of the incident, told NBC News's "Meet the Press" that the White House believed that Homeland Security Secretary Janet Napolitano, who has drawn Republican criticism over her response to the foiled attack, "has done a tremendous job."

But he conceded that the nation's counterterrorism defenses "didn't work" on the day of the attempted attack by Mr. Abdulmutallab. He said U.S. officials had failed to pull together multiple streams of intelligence suggesting that Mr. Abdulmutallab might pose a threat, including a warning from the suspect's father. Mr. Brennan suggested that some officials could lose their jobs due to the lapses.

"What we had, looking back at it now, were a number of streams of information," Mr. Brennan said on ABC's "This Week." "We may have had a partial name, we might have had an indication of a Nigerian, but there was nothing that brought it all together."

Some Republicans on Sunday were dismissive of Mr. Brennan's comments. They criticized the Obama administration's decision to try Mr. Abdulmutallab in a civilian court and said the White House hadn't demonstrated that it took counterterrorism efforts seriously.

"That, to me was 'Janet Napolitano, Part Two,' " Rep. Peter King of New York, the ranking Republican on the House Intelligence Committee, said on Fox News. "They haven't learned their lessons."

In the days since the foiled attack, Mr. Abdulmutallab has told American investigators that he received training and explosives from an al Qaeda offshoot in Yemen, which is emerging as a potential, new front in the war on terror.

On Sunday, with the U.S. State Department shutting down the U.S. Embassy in Yemen's capital, a statement on the embassy's Web site cited "ongoing threats" from the group. It didn't say how long the embassy would remain shut. British officials in London said of the closure of the U.K. embassy in Sana'a that they would decide later in the day whether to reopen the facility on Monday or keep it closed longer.

Two former, high-level Bush administration officials on Sunday acknowledged that some Guantanamo Bay detainees the Bush White House had transferred to Yemen had since rejoined the fight against the U.S. "Certainly we bear responsibility for that," retired Gen. Mike Hayden, who ran the National Security Agency and the Central Intelligence Agency during some of the Bush years, said on "Meet the Press." "We made some mistakes."

European Pressphoto Agency

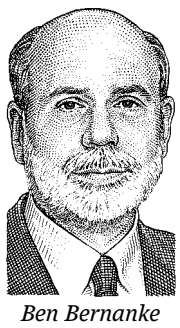
Yemeni soldiers guard a government building in Sana'a, where the U.S. and British embassies closed for security reasons.

Fed chief says rate rise is plan-b to burst bubbles

By Luca Di Leo

ATLANTA—The U.S. Federal Reserve must be open to raising interest rates to pop asset bubbles, even though stronger regulation remains the best solution to prevent a repeat of the crisis, the Fed chief said Sunday.

Fed Chairman Ben Bernanke said all efforts should be made to strengthen the U.S. regulatory system to prevent a repeat of a financial crisis that Mr. Bernanke described as possibly the worst in modern history.



Ben Bernanke

"However, if adequate reforms are not made, or if they are made but prove insufficient to prevent dangerous buildups of financial risks, we must remain open to using monetary policy as a supplementary tool for addressing those risks—proceeding cautiously and always keeping in mind the inherent difficulties of that approach," he told an annual meeting of economists here.

The Fed has been criticized for keeping interest rates too low for too long in early 2000, helping to fuel a housing bubble at the root of the recent financial crisis.

Although admitting that monetary policy was accommodative in early 2000, Mr. Bernanke said the housing bubble was likely the result of exotic alternative mortgages that could have been prevented with better regulation.

Until now, the Fed's main strategy has been to mop up after a bubble has burst with lower interest rates to cushion the blow to the economy, instead of trying to prick a bubble pre-emptively by raising rates.

Such a strategy was a key conclusion of Mr. Bernanke's writings on the subject of bubbles when he was an economics professor, and again when he first came to the Fed as a governor in 2002.

"Clearly, we still have much to learn about how best to make monetary policy and to meet threats to financial stability in this new era," Mr. Bernanke told the American Economic Association.

"Maintaining flexibility and an open mind will be essential for successful policy-making as we feel our way forward," he said.

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WORLD NEWS: AFGHANISTAN

Taliban member claims retaliation

Senior commander in Afghan insurgent group says killing of CIA agents was payback for drone strikes in the region

KABUL—A senior commander connected to the Afghan Taliban and involved with the attack against the U.S. Central Intelligence Agency that left eight people dead said Saturday the bombing was retaliation for U.S. drone strikes in the Afghan-Pakistan border region.

*By **Anand Gopal** in Kabul and **Siobhan Gorman** and **Yochi J. Dreazen** in Washington*

"We attacked this base because the team there was organizing drone strikes in Loya Paktia and surrounding area," the commander said, referring to the area around Khost, the city where the U.S. facility was attacked on Dec. 30. The commander, a prominent member of the Afghan insurgency, spoke on the condition of anonymity.

The suicide attack, which dealt the biggest loss to the agency in more than 25 years, killed a woman who was the station chief along with six other CIA officers and one private-security contractor.

"We attacked on that particular day because we knew the woman who was leading the team" was there, the commander said.

The claims couldn't be independently verified by Sunday and an effort to contact the CIA over the weekend for comment wasn't successful.

Both the Afghan and Pakistani Taliban have claimed responsibility for the attacks. In the past, the Pakistani Taliban have claimed responsibility for attacks and Western officials have rejected those claims.

Some drone strikes had been coordinated from Forward Operating Base Chapman, Western officials said. The strikes were to target senior leaders of al Qaeda, the Pakistani Taliban and an Afghan group called the Haqqani Network. The CIA operatives located at Chapman, near the Pakistani border, were involved in cultivating informants to target insurgent leaders using ground raids and drone strikes.

A number of leaders of these three groups have been killed by the strikes, which mostly occur on the Pakistani side of the border. Al Qaeda and the leadership of the Haqqani Network are believed to have bases in this area. The strikes have caused anger in the tribal border areas, stemming from claims that civilians also have been killed.

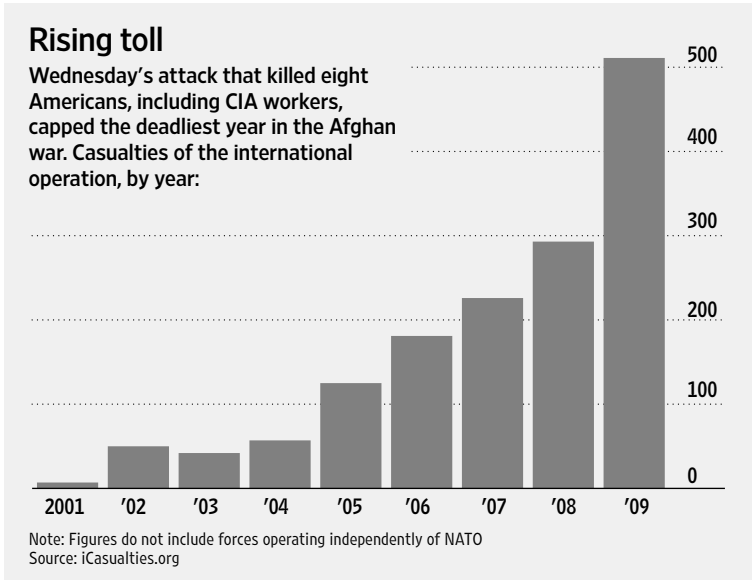
U.S. officials maintain the strikes are necessary to target insurgent leaders who use the border area as a sanctuary.

The attack that killed the seven CIA officers appears to stem from a strategy of calculated risk in running the spy agency's informant network, posing a sharp challenge as operations ramp up for the Obama troop surge.

U.S. intelligence and military officials said Friday that the attacker had been recruited as a possible informant and brought onto Chapman, passing through at least one checkpoint. He detonated his charge shortly before being searched, blowing himself up.

It was a "high-level asset meeting gone bad," said one former intelligence official familiar with the incident.

In providing additional details of the suicide bombing, the agency's worst loss of life since 1983, former and current U.S. intelligence officials painted a clearer picture of how the agency has battled Taliban and allied militants.



In particular, Chapman appears to have taken a less strict line on security than at other U.S. military bases. Only modest searches are performed there, some U.S. officials say, in the hopes of establishing trust with those who may furnish information. Through its efforts in the region, the CIA has been able to create a large network of informants about the activities of al Qaeda and other militants.

"The CIA team there was very professional, and they knew there was a risk to their security protocols," an official said. "But they felt the need to gather viable, time-sensitive intelligence was so pressing that it justified the trade-off."

Some former officers have been critical of the practice. One said allowing informants onto a CIA base was poor spy tradecraft and that officers should meet informants off-base. "In a war zone, they don't follow standard tradecraft," the former official said. "If you don't follow tradecraft rules, this is what happens."

The CIA is reviewing its security practices on bases. "What happened is being looked at very, very closely," Marie Harf, a CIA spokeswoman, said.

It appears unlikely the CIA will substantially change its use of informants. One intelligence official said it is stepping up efforts in this area.

U.S. officials are still investigating how the informant, said to be wearing an Afghan National Army uniform, was able to get close enough to so many CIA officers without a more thorough screening. They are also investigating the attack's source.A U.S. intelligence official, asked about the different security standards for potential informants, said: "Intelligence assets are basically asked to risk their freedom—and often their lives—to collect information on behalf of the United States... It's a fact of espionage that you frequently have to deal with people you need but don't or can't trust."

Such risks will be amplified as the CIA ramps up its operations in Afghanistan to accompany the military surge President Barack Obama has ordered. The CIA expects to increase its own forces by 20% to 25% in the next 18 months, said one U.S. intelligence official.

The death toll is the largest suffered by the spy agency in three decades and has wiped out decades of experience in counterterrorism, current and former officials say. One former CIA official said the base chief, a mother of three, had counterterrorism experience dating to the agency's Alec Station, created to monitor Osama bin Laden years before the attacks of Sept. 11, 2001.

The meeting also included a high-level CIA officer who had traveled to the remote base from Kabul. It is unclear whether that person was among those killed.

Chapman houses the CIA detachment and a State Department-run provincial reconstruction team, so it has only a minimal military presence. It was established in the months after the attacks of Sept. 11, 2001, as the U.S. launched its CIA-led offensive against al Qaeda and the Taliban in Afghanistan. The CIA's presence is an open secret locally, say former intelligence officials.

U.N.'s Kabul chief raps rejection of Karzai picks

By Anand Gopal

KABUL—The head of the United Nations mission to Afghanistan criticized the Afghan parliament's decision to reject a majority of President Hamid Karzai's cabinet nominees, citing concerns that it could delay the formation of a new government.

The Parliament voted to reject 17 out of Mr. Karzai's 24 nominations. Among those is Ismail Khan, a controversial warlord who had been nominated as energy minister. Other rejected nominees included the ministers of justice, commerce, economy and public health.

Kai Eide, the top U.N. chief in the country, said Sunday that the decision constituted a "setback" and a "distraction," which could hamper international efforts to reform, in a timely fashion, a government often accused of corruption. On Tuesday, the Afghan parliament will start a 45-day recess, meaning that up to two months could pass before a new government is installed.

There is concern that the extended period without a cabinet could delay much-needed reform of ministries widely accused of being corrupt or inefficient. This could play into the hands of insurgents, who have capitalized on the popular disillusionment that government graft has sparked.

But lawmakers said that the rejection of the majority of Mr. Karzai's nominees was necessary because it wouldn't have been a competent cabinet. "Those who were not approved by the Parliament did not deserve to be ministers because they were not nominated for their capabilities," said Ahmad Behzad, a lawmaker from the western province of Herat. "Indeed, they were nominated because of their connections to certain influential people."

A number of lawmakers pointed to the connections that a portion of the proposed cabinet had to controversial figures. "Many of these people represent warlords and won't look out of the interests of ordinary Afghans," said Fauzia Kofi, a parliamentarian.

A spokesman for Mr. Karzai said Sunday that the president would abide by Parliament's vote. "The rejection of 17 ministers was very disappointing for the president," said Wahid Omar. "But in order to strengthen the foundations of democracy in the county, President Karzai respects the Parliament's decision."

Mr. Omar said he didn't know when Mr. Karzai would announce alternatives nominations.

The Afghan Parliament, which by design has limited powers, has given no-confidence votes to some officials in the past, including the current foreign minister. But in most cases, the president and his government simply ignored those decisions.

Associated Press

Afghan President Hamid Karzai, left, visited Helmand province Saturday, the day most of his cabinet choices were rejected.

If lawmakers now have succeeded in forcing Mr. Karzai to drop the rejected nominees, it could mark the broadest unified political opposition he has faced from within the government.

Afghan officials also announced over the weekend that parliamentary elections would be held in May, despite Western objections that the country's fraud-tainted electoral system needs to be revamped before new polls are held.

But Daud Ali Najafi, an official with the Independent Election Commission, said Saturday that his group cannot enact reform and will hold the elections on May 22. "Reform of electoral law, it's not in our control," he said. "Parliament should approve electoral law."

Analysts are concerned that there isn't enough time to prepare well for May elections. The volatile security situation in many parts of the country may encourage widescale fraud, as seen in the presidential elections. Ballots were stuffed in some areas too dangerous to be monitored by election observers.

Devastated Pakistan villagers vow to fight on as toll hits 92

'We know where the attackers came from, and we will go after them'

By Zahid Hussain

Tribesmen of the village in northwestern Pakistan that bore the brunt of Friday's sports-ground attack vowed to continue to resist the Taliban, even as the death toll climbed above 90.

Residents of Shah Hasan Khel, a remote village close to the South Waziristan tribal region, were still searching for the dead Sunday in the rubble of houses destroyed by the suicide truck bombing during a volleyball game. The explosion destroyed a large part of the village, which has about 5,000 residents.

Police suspect that the attack was in retaliation for a local militia's vowing several months ago to take on the Taliban to try to drive them from the village. Police said 92 people were killed and 43 were injured in one of the deadliest militant attacks in the recent months. The death toll could rise as high as 120, some residents said.

Undeterred by the massacre, some tribesmen said they would continue battling the Taliban. "The attack has firmed up our resolution to continue fighting the militants," Mushtaq Marwat, the head of the village militia said in a telephone interview.

Mr. Marwat, who has about 250 fighters under his command, was presiding over a meeting of local tribal elders in a nearby mosque when the bombing occurred, and several people died when part of it was destroyed.

"We know where the attackers came from, and we will go after them," Mr. Marwat said.

Ayub Khan, the district police chief, said the attackers have been identified and the police have detained several people for questioning. "The attack was organized by the militants operating from Miranshah," Mr. Khan said in a phone interview. Miranshah is the headquarters of North Waziristan, where the Taliban leaders fleeing the army offensive in neighboring South Waziristan have taken refuge.

Mr. Marwat complained that authorities in Islamabad had failed to give his village enough security despite the constant threats from the Taliban. He said the militia need more guns to defend the village against another possible attack by the Taliban.

The Pakistani military has encouraged villagers to defy the militants, but without enough weapons or training such village militias sometimes find themselves at the mercy of their enemies.

In some cases, pro-government militias have successfully ousted insurgents, but residents then can end up paying a heavy price for their defiance. The Taliban often target militia leaders to create fear among their followers.

In another incident targeting local militia Sunday, a vehicle carrying anti-Taliban tribal elders in Bajaur tribal region was struck by a roadside bomb. Two people were killed and four were critically wounded. The victims were working to set up a pro-government militia in the area, a militant stronghold near the Afghan border,

Security officials denied that Shah Hasan Khel was left unprotected. "A platoon of paramilitary in addition to a sizable police force was deployed in the area in view of the Taliban threat," said district police chief Mr. Khan, contending it is extremely difficult to stop suicide attacks.

Near the village in the South Waziristan region, some 30,000 Pakistani army troops are battling the Islamic militants. There has been a marked surge in the militant violence since Pakistani forces started the biggest offensive Oct.17 against al Qaeda and Taliban militants the border region. More than 600 people have been killed in the terrorist attacks across Pakistan since then. Friday's truck bombing was the second-most-deadly attack, after an explosion in a market in Peshawar in October killed 124 people. In another apparent attack Sunday, a roadside bomb struck a vehicle in northwestern Hangu district, killing a former irrigation minister and his bodyguard.

Associated Press

Members of a Pakistani civil society, at a rally in Karachi on Saturday, light candles for the victims of Friday's suicide bombing near South Waziristan.

I harvest opportunity from risk.
JOSÉ AROLDO GALLASSINI
President,
Coamo Agroindustrial Cooperative
For José Aroldo Gallassini, turning risk into opportunity is second nature. As president of Brazil's largest agricultural cooperative, he comes to CME Group to mitigate price volatility and protect his organization's position in the global soybean market. With unparalleled liquidity, transparency and speed, and the security of central counterparty clearing, CME Group guarantees the soundness of every trade. That's why CME Group is where the world comes to manage risk. Learn more at cmegroup.com.
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The Power List: Year in Review

The top business leaders who made headlines in 2009 in select global and regional media. Powered by Dow Jones Factiva and edited for relevance and clarity.

MUKESH AMBANI

Chairman
Reliance Industries

The Ambani brothers made waves with their corporate moves last year, particularly Mukesh and his company's $12 billion effort to acquire chemical giant LyondellBasell Industries out of bankruptcy proceedings. But it was mostly their fraternal feud that made them newsworthy.

The two are clashing in court over a natural gas pricing contract, laying bare tensions that led to the split up of the family's giant textile-to-telecom Reliance group in 2005. The battle made them Asia's most visible corporate leaders for 2009.

ANIL AMBANI

Chairman
Reliance Natural Resources

AKIO TOYODA

President
Toyota Motor

The grandson of Toyota's founder, Mr. Toyoda took the top post in June amid a record loss in its most recent fiscal year and with an apology for the auto maker's performance. He has undertaken a sweeping cost-cutting program and plans an expansion of its Prius gasoline-electric hybrid line, but will still face pressure to trim capacity.

RAMON ANG

President, Chief Operating Officer
San Miguel

Mr. Ang and San Miguel Chairman and CEO Eduardo Cojuangco Jr. have led an acquisition spree as the Philippines-based brewer seeks a broader presence in everything from telecommunications to utilities. In November, allies of Mr. Ang bought a 28% stake in San Miguel, solidifying their control.

HO CHING

Executive Director, Chief Executive
Temasek Holdings

The wife of Singapore Prime Minister Lee Hsien Loong remains at the helm of the city-state's massive state-owned investment fund after Charles "Chip" W. Goodyear said he wouldn't take the position. After Temasek's portfolio took a hit from its Western investments, Ms. Ho is guiding a push to prioritize its investment in Asia and other developing markets.

SHELDON ADELSON

Chairman, Chief Executive
Las Vegas Sands

Mr. Adelson began the year with a major Macau expansion program on hold. Now, work in Macau is set to restart and Sands plans to open of the first stage of Singapore's Marina Bay Sands in spring. Sands also raised $2.5 billion in a Hong Kong IPO of its Macau assets, though the shares have been pressured by debt concerns.

WARREN E. BUFFETT

Chairman, Chief Executive
Berkshire Hathaway

Mr. Buffett's 2008 investment in Chinese auto maker BYD Co. helped raise the company's profile as well as sales of both its electric and gasoline-powered cars. BYD now plans a U.S. electric-car push. Separately, Mr. Buffett had a similar effect on Chinese menswear maker Dayang Group after publicly praising how its suits made him look.

YOSHIFUMI NISHIKAWA

Former President
Japan Post Holdings

The former banker in 2005 was tapped to lead the privatization effort of Japan's sprawling postal service, which does everything from delivering the mail to offering financial services. But the effort grew increasingly unpopular, and Japan's newly elected government this year blocked the privatization and publicly criticized Mr. Nishikawa. In an interview after his October resignation, he called the decision to reverse the privatization "a huge waste."

STEPHEN GREEN

Group Chairman
HSBC Holdings

About 17 years after the bank left Hong Kong for London, Mr. Green is steering it back to its Asian roots. HSBC is taking steps toward a stock offering in Shanghai once authorities allow foreign listings, and it took the small-but-symbolic step of moving its chief executive Michael Geoghegan back to Hong Kong. Mr. Green, who will remain in London, and other executives cited Asia's growing financial heft.

WANG JIANZHOU

Chairman, Chief Executive
China Mobile

The Chinese Communist party Thursday removed Vice Chairman Zhang Chunjiang from his post, putting a cloud of uncertainty over China's biggest mobile network operator. Mr. Wang has also seen his company's profit growth slow as competition intensifies. Mr. Wang is looking to 3G devices and has been in talks with Apple Inc. about offering the iPhone, currently available officially there only from China Unicom (Hong Kong).

Photos: Agence France-Presse/Getty Images (Mukesh Ambani, Ang, Ho, Nishikawa); Associated Press (Adelson, Buffett); Bloomberg News (Toyoda, Green, Wang); Reuters (Anil Ambani)

Compiled by Carlos Tejada/ The Wall Street Journal

Steeling From Americans

U.S. steel makers are cheering an International Trade Commission vote Wednesday to impose new duties on imports from China. U.S. consumers will want to hold their applause.

The case was filed in April by domestic steel manufacturers and the United Steelworkers union, which argued that they had been injured by imports of subsidized steel from China. The ruling allows the Commerce Department to impose countervailing duties ranging from 10% to 16% on future imports from China of "oil country tubular goods," which are the pipes used in the oil and gas industry.

In effect, the ITC vote means that few if any such pipes from China will now be entering the U.S. That's good news for a domestic steel industry that wants less competition from international suppliers. But it's bad news for the U.S. economy, and for consumers of steel products who could face higher prices for cars, appliances and other downstream goods.

> New tariffs will punish U.S. energy producers.

Imports of the steel pipes have surged in recent years, as they typically do in the wake of an oil price hike, which swells demand for domestic drilling. In 2008, a year that featured $4 per gallon gas, the U.S. imported $2.8 billion worth of drill pipes from China, a three-fold increase over the previous year. That was enough for domestic suppliers to file an ITC complaint, ratcheting up a trade war that has resulted in U.S. companies and unions bringing about a dozen cases over subsidies and pricing against China this year.

The reality is that the domestic steel industry produces about two-thirds of what the U.S. consumes each year. The rest comes from foreign suppliers, and the competition results in products that would otherwise be more expensive. China is by far the world's leading producer of drill pipes, and a Goldman Sachs analysis last month that anticipated the ITC decision says that it could result in a shortage of the pipes in the U.S. by the second half of next year. Never mind that making domestic gas-and-oil exploration more expensive would seem to be at cross purposes with making the U.S. less reliant on foreign energy.

By the way, the U.S. steel industry also made a fat profit of $3.9 billion from 2006 to 2008. China will no doubt respond to this latest protectionism with more tariffs of its own against U.S. products or investment, further increasing the cost of this protectionism.

U.S. trade laws aren't about "fair trade" or "leveling the playing field," or the other cliches of protectionists. They have become tools of political income redistribution, protecting certain industries at the expense of others and the larger U.S. economy.

A President for All People

Indonesia is the world's most populous Muslim-majority democracy and a symbol of hope for the many Arab nations shackled by authoritarian regimes. That is in no small part thanks to the herculean efforts of Abdurrahman Wahid, a former president and one of the world's most respected Islamic clerics.

Mr. Wahid, affectionately known by his nickname Gus Dur, died Wednesday in Jakarta at the age of 69. A descendant of Javanese kings, he studied religious affairs in Egypt and Iraq before returning to Indonesia, where he worked as a journalist and academic. He was a three-term chairman of the Nahdlatul Ulama, a 40-million strong Muslim organization founded by his paternal grandfather, where he championed liberal ideas of religious tolerance, democracy and freedom.

Indonesia's chance to realize these ideals came suddenly in 1998, with the fall of Suharto. Mr. Wahid threw his hat into the presidential race the following year to "be the voice of clean politics." He won after Islamic parties threw their votes behind him. Markets fell, worried that the almost-blind cleric didn't have what it took to lead a vast archipelago struggling to cement its young democracy, and fracturing at its edges.

But Mr. Wahid proved them wrong. In only two years, he asserted civilian control over the military, revoked anti-Chinese legislation and encouraged press freedom. Most importantly, he condemned religious violence, argued strongly for a secular state and reached out to democracies around the world—including Israel.

Abdurrahman Wahid

Though he was eventually impeached by the legislature in a political putsch, Mr. Wahid proved just as courageous out of high office as he was in it. He lent his name and prestige to the Wahid Institute and the LibForAll Foundation to spread his vision of a modern, progressive and tolerant Islam both within Indonesia and around the world. After 9/11 and the Bali bombings, he spoke out strongly and often against terrorism.

Many Muslim Indonesians considered Mr. Wahid a living saint. But Christians, Buddhists and many others mourned his passing last week. Their grief is testament to the power of his ideas, not just for Indonesians, but for every other pluralistic society seeking a peaceful and prosperous future.

The States and the Stimulus

Remember how $200 billion in federal stimulus cash was supposed to save the states from fiscal calamity? Well, hold on to your paychecks, because a big story of 2010 will be how all that free money has set the states up for an even bigger mess this year and into the future.

> How a supposed boon has become a fiscal burden.

The combined deficits of the states for 2010 and 2011 could hit $260 billion, according to a survey by the liberal Center on Budget and Policy Priorities. Ten states have a deficit, relative to the size of their expenditures, as bleak as that of near-bankrupt California. The Golden State starts the year another $6 billion in arrears despite a large income and sales tax hike last year. New York is literally down to its last dollar. Revenues are down, to be sure, but in several ways the stimulus has also made things worse.

First, in most state capitals the stimulus enticed state lawmakers to spend on new programs rather than adjusting to lean times. They added health and welfare benefits and child care programs. Now they have to pay for those additions with their own state's money.

For example, the stimulus offered $80 billion for Medicaid to cover health-care costs for unemployed workers and single workers without kids. But in 2011 most of that extra federal Medicaid money vanishes. Then states will have one million more people on Medicaid with no money to pay for it.

A few governors, such as Mitch Daniels of Indiana and Rick Perry of Texas, had the foresight to turn down their share of the $7 billion for unemployment insurance, realizing that once the federal funds run out, benefits would be unpayable. "One of the smartest decisions we made," says Mr. Daniels. Many governors now probably wish they had done the same.

Second, stimulus dollars came with strings attached that are now causing enormous budget headaches. Many environmental grants have matching requirements, so to get a federal dollar, states and cities had to spend a dollar even when they were facing huge deficits. The new construction projects built with federal funds also have federal Davis-Bacon wage requirements that raise state building costs to pay inflated union salaries.

Worst of all, at the behest of the public employee unions, Congress imposed "maintenance of effort" spending requirements on states. These federal laws prohibit state legislatures from cutting spending on 15 programs, from road building to welfare, if the state took even a dollar of stimulus cash for these purposes.

One provision prohibits states from cutting Medicaid benefits or eligibility below levels in effect on July 1, 2008. That date, not coincidentally, was the peak of the last economic cycle when states were awash in revenue. State spending soared at a nearly 8% annual rate from 2004-2008, far faster than inflation and population growth, and liberals want to keep funding at that level.

A study by the Evergreen Freedom Foundation in Seattle found that "because Washington state lawmakers accepted $820 million in education stimulus dollars, only 9 percent of the state's $6.8 billion K-12 budget is eligible for reductions in fiscal year 2010 or 2011." More than 85% of Washington state's Medicaid budget is exempt from cuts and nearly 75% of college funding is off the table. It's bad enough that Congress can't balance its own budget, but now it is making it nearly impossible for states to balance theirs.

These spending requirements come when state revenues are on a downward spiral. State revenues declined by more than 10% in 2009, and tax collections are expected to be flat at best in 2010. In Indiana, nominal revenues in 2011 may be lower than in 2006. Arizona's revenues are expected to be lower this year than they were in 2004. Some states don't expect to regain their 2007 revenue peak until 2012.

So when states should be reducing outlays to match a new normal of lower revenue collections, federal stimulus rules mean many states will have little choice but to raise taxes to meet their constitutional balanced budget requirements. Thank you, Nancy Pelosi.

This is the opposite of what the White House and Congress claimed when they said the stimulus funds would prevent economically harmful state tax increases. In 2009, 10 states raised income or sales taxes, and another 15 introduced new fees on everything from beer to cellphone ringers to hunting and fishing. The states pocketed the federal money and raised taxes anyway.

Now, in an election year, Congress wants to pass another $100 billion aid package for ailing states to sustain the mess the first stimulus helped to create. Governors would be smarter to unite and tell Congress to keep the money and mandates, and let the states adjust to the new reality of lower revenues. Meanwhile, Mr. Perry and other governors who warned that the stimulus would have precisely this effect can consider themselves vindicated.

OPINION

Back to GOP Basics

[The Journal Interview with Bob McDonnell]

By Brendan Miniter

Richmond, Va.

"I'm sorry," Bob McDonnell says, shaking my hand. It's a recent rainy morning in Virginia's capital, and the incoming Republican governor is late to start our meeting at his transition headquarters. His previous meeting ran over because Democratic legislative leaders were telling war stories. "Unfortunately," he says with a smile, "all of their stories involved Republican governors."

The new governor is in high spirits. Along with New Jersey's Chris Christie, in November he was one of two Republicans elected governor in states that Barack Obama carried a year ago. Mr. McDonnell won by a 17-point landslide and captured independents by a two-to-one margin. Many wonder if his victory is a sign that Republicans will run the table in the upcoming congressional elections.

Virginia's governor-elect on his plans for spending cuts, offshore drilling and charter schools.

So how did he win a state that Obama Democrats had thought was part of a permanent national shift to the left? "I ran on Virginia issues," Mr. McDonnell says, "which were jobs and the economy." These were, he says, "far and away" the top issues. Virginia's unemployment rate, 6.6%, is lower than the 10% national average, but it is up sharply from its low of below 3% in 2007.

"In the worst economy in 80 years," says Mr. McDonnell, "it didn't take a rocket scientist to figure out what we ought to be talking about." He adds: "I do think that talking about the excesses of the federal government is something you are going to hear Republican and Democratic candidates for statewide office talk about for a while because I think you're going to see a resurgence of discussions of federalism, about the 10th Amendment, about limits on federal power, and federal spending."

Given his emphasis on economic issues, I ask Mr. McDonnell whether he was able to win because he downplayed his social conservatism. He brushes off the question. "I am 100% prolife . . . We were unequivocal about our position on marriage," he says.

"I have a record," he says, that includes 14 years in the House of Delegates and three years as the state's attorney general that made it possible for him to spend the bulk of his time talking about fiscal issues. When social issues did come up during the campaign, he was able to state his position and then say "OK, now let's talk about the economy."

The clearest example came in late August, when Mr. McDonnell referred to his master's thesis at Regent University in a meeting at the Washington Post. A little reporting revealed that the thesis contained controversial social positions—such as the argument that working women and feminists were "detrimental" to building strong families. A Washington Post poll released about two weeks after news of the thesis showed Mr. McDonnell leading Democrat R. Creigh Deeds 51% to 47%—down substantially from a lead of 54% to 39% in August. The campaign was at a pivot—the point at which Mr. McDonnell might have been sent down to defeat.

Mr. McDonnell doesn't take the bait when I mention his thesis, and within weeks of the issue surfacing during the campaign he was back talking about the economy in general and energy in particular. In short order he was back to outdistancing Mr. Deeds. He had laid the groundwork to do that in February when he blasted congressional Democrats for pushing cap-and-trade legislation, and he spent months telling voters it would hit some families with as much as $1,700 in additional electricity costs each year.

Mr. McDonnell also scored politically with his proposal to allow oil drilling in the state's coastal waters. His proposal builds on a policy set in motion a year ago when a federal ban on drilling off the Atlantic Coast was allowed to expire.

"We are set to be the first state in the country in 2011 to drill [for oil] offshore, off the Atlantic Coast," he says, downplaying the environmental lobby's intense efforts to reimpose the ban. "Unfortunately, the administration is dragging its feet. So I am going to do everything I can to push federal regulators to keep us on track."

* * *

Virginia isn't as bad off as California, which has been battered by deficits in the tens of billions of dollars over the past year. But it is facing a budget crunch. Its $80 billion biannual budget is estimated to be $4.2 billion in the hole. This deficit comes after incumbent Gov. Tim Kaine, a Democrat, cut $6 billion in state spending over the past two years.

"It has been a darn tough time to be governor," Mr. McDonnell tells me. But at the same time he sees "an enormous opportunity to rethink the way we deliver government, to look at ways to privatize, to consolidate, to innovate with technology. . . . The private sector is doing this all of the time—asking how it can deliver better services to its customers and cut operating expenses. Government doesn't do that very well. I've told everybody I'm going to make that a big point."

Mr. McDonnell needs bipartisan support in the Democratic state Senate. So he is reaching across the aisle. He's informed officials in the outgoing Democratic administration that they won't necessarily be bounced from government (they are invited to reapply for positions in his administration). He has also picked one high-profile issue that might win him support among Democrats in Richmond and Washington: education reform.

Terry Shoffner

The Obama administration has invited states to compete for education grants in a program called "Race to the Top." The grants will be given to states that demonstrate a commitment to education reform through charter schools, merit pay for teachers, and other policies. Mr. McDonnell is asking Democrats—including Gov. Kaine, who doubles as the chairman of the Democratic National Committee—for help in applying for these grants.

"I think this is a great opportunity for me," he says, "because we have the president of the United States and [U.S. Education Secretary] Arne Duncan promoting charter schools with $4.35 billion of federal help behind it . . . We could get hundreds and hundreds of millions of dollars for Virginia to promote charter schools and merit pay."

Mr. McDonnell has already coordinated with Gov. Kaine on the grant application, and he says Mr. Kaine "seems to be very willing to work together on that. So I am excited. This education reform is something I will push aggressively in the first year."

"But," he adds, "it's not just charter schools and merit pay" that matter. It's also "restructuring where the money goes."

Mr. McDonnell points out that there are only 42 schools in the state, mostly around Petersburg, that are considered failing. He says he has "a detailed plan for turnaround specialists to be involved in these 42 schools" and, more broadly, to spend more money on students than the state spends now: "I've said we need to put more money in the classroom and less into administration and overhead. I ran on the idea that 65% of the dollars [should] go to the classroom. Right now the average is 61%. So if you can transfer another 4%, it amounts to about half a billion dollars in new money."

* * *

With the state in deficit, Mr. McDonnell is likely to find broad agreement on the need to cut spending elsewhere. But where those cuts are made, how deep they are, and whether they include eliminating programs will likely be sharply contested.

The new governor seems intent on making fundamental changes to the budget: "I've told the legislature that I'm going to be asking for money to do audits of major state agencies, like the [Department of] Medical Assistance Services, the Department of Transportation. . . . In short order, we'll recommend some restructuring of state government, and maybe the elimination of some agencies."

Cutting back is a necessity, he says. "When government has billion-dollar shortfalls, you are forced to go to the table and say 'How can we do things differently?' So I am going to probably propose some things that they [legislators] may not like."

One fundamental reform Mr. McDonnell campaigned on last year is to repeal the state's monopoly on the sale of hard alcohol, and to sell off state-owned liquor stores. Locally known as the ABC stores—they are run by the state's Department of Alcohol Beverage Control—the idea of selling them has been kicked around for years. But it has been a nonstarter because lawmakers like the revenue the stores generate, and because some argue that selling them would lead to a spike in alcohol consumption.

Mr. McDonnell disagrees, and he says that selling the stores shouldn't be a hard decision: "This is a vestige of Prohibition that doesn't fit the model of the free enterprise system. . . . I think it can be done in a way that gives us a huge chunk of money up front for transportation and gives us a revenue stream for down the road. We are going to try to find a way to make this happen."

While Mr. McDonnell says that his reform agenda may bring him into conflict with Democrats, he has not mentioned divisions that have surfaced among Virginia Republicans in recent years. In 2004, 34 Republican state legislators voted for a $1.38 billion tax increase. In the years that followed, Republicans lost a governor's race and both U.S. Senate seats to Democrats—evidence that the tax hike splintered public support for the GOP.

I ask Mr. McDonnell how he united his party and even overcame the ouster of his state party chairman earlier this year. He responds by praising Lt. Gov. Bill Bolling (who ran for re-election rather than challenge Mr. McDonnell in a primary), Pat Mullins (the new party chairman who quickly reached out to party conservatives), and others for smoothing over rifts within the GOP.

* * *

But what I'm really after is whether Republicans are now determined to stand together on hard fiscal policy fights ahead. So I ask about a "Least Wanted" poster that Americans for Tax Reform, an advocacy group in Washington, D.C., distributed to lawmakers across the country with the names and faces of Virginia Republicans who backed the tax hike. "I remember," Mr. McDonnell says of the poster. "I was glad not to be on it."

As for the damaged Republican brand, one message voters sent with Mr. McDonnell's election is that they don't want the GOP to repeat its mistakes from the past decade. Mr. McDonnell seems to have received that message, saying that it was important for him to run on fiscal issues, because "we've got to hold the line on taxes and we've got to cut spending."

Mr. Miniter is an assistant features editor at the Journal.

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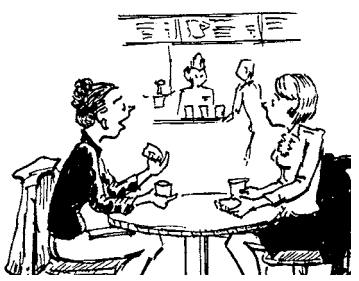


"Whenever I'm feeling really insecure, I call up companies that tell me my call is important to them."

OPINION

The Cost of Korean Reunification

By Peter M. Beck

The North Korean nuclear problem has understandably preoccupied foreign policy makers for years, and is set to do so in the early part of the new decade, too. But that is only part of what foreign leaders should be concerned about on the Korean peninsula. Kim Jong Il's regime looks increasingly unstable, raising the specter that managing reunification—and especially the costs associated with it—could become the big problem. Now, before regime collapse is upon us, is the time to start considering how to pay it.

The cost will depend in large part on how that transition unfolds. The best of the plausible scenarios would see Korea following the German path of sudden and bloodless reunification. The worst outcome would be violence akin to the unification of Vietnam or Yemen. A middle road would resemble the chaotic post-Communist transitions of Romania and Albania. This seems most likely given the similarities between Kim's autocratic, autarkic rule and Nicolae Ceausescu's and Enver Hoxha's reigns in their countries.

Any of these outcomes is sure to be expensive because the North will require massive investments to build a modern economy. The economy collapsed in the 1990s amid a massive famine that likely killed hundreds of thousands. Infrastructure, starting with the power grid, railway lines and ports, will require tens of billions of dollars to build or upgrade. Few factories meet modern requirements and it will take years to rehabilitate agricultural lands. The biggest expense of all will be equalizing North Koreans' incomes with their rich cousins in the South, whether through aid transfers or investments in human capital like education and health-care.

Even the best-case German model will cause heartburn in South Korean officials. Despite the $2 trillion price tag West Germany has paid over two decades, Bonn had it relatively easy in the beginning. East Germany's population was only one-quarter of the West's, and in 1989 East German per capita income was one-third of the West. The two Germanies also had extensive trade ties.

In contrast, North Korea's per capita income is less than 5% of the South's. Each year the dollar value of South Korea's GDP expansion equals the entire North Korean economy. The Northern population is half the South's and rising thanks to a high birth rate. North and South still barely trade with each other—China-Taiwan trade is 54 times greater in dollar terms than inter-Korean trade. That the North is starting from so far behind means even more resources will be needed than Germany required to achieve convergence in standards of living.

Fixing the North's economy will cost at least $2 trillion. Now is the time to think about how to pay for it.

More than a dozen reports by governments, academics and investment banks in recent years have attempted to estimate the cost of Korean unification. At the low end, the Rand Corporation has figured on $50 billion. But that assumes only a doubling of Northern incomes from their current level, which would still leave incomes in the North at less than 10% of the South. At the high end of these projections, Credit Suisse estimated last year that unification would cost $1.5 trillion, but with North Korean incomes rising to only 60% of the South. I estimate that raising Northern incomes to 80% of Southern levels—which would likely be a political necessity—would cost anywhere from $2 trillion to $5 trillion, spread out over 30 years. That would work out to at least $40,000 per capita if distributed solely among South Koreans.

All of this leads to the question of who would foot the bill. China is the greatest supporter of the current regime in Pyongyang, with trade, investment and unconditional economic assistance worth $3 billion a year. Yet even if that flow continues to the Northern part of a reunified Korea (it most likely would not), it will be a fraction of the $67 billion a year that would be needed to equal $2 trillion over three decades. After South Korea, Japan would become the largest source of aid, but the $10 billion it is prepared to pay in reparations for having colonized the North would barely make a dent.

That leaves international institutions like the World Bank—and Seoul and the United States. It will be a wise investment to secure peace and prosperity in North Asia, but that money won't grow on trees. Policy makers need to start considering now how they would spend it, to minimize the risk of wasting it in post-reunification confusion. And officials need to think about where they'll secure the cash. Multinational corporations will rush in, but the bulk of the burden will fall on the shoulders of South Korea—requiring careful fiscal management, borrowing and tax increases.

Korean unification is unlikely to take place in the near future, but since it will most likely be sudden and cost trillions of dollars, the time to prepare is now.

Mr. Beck is the Pantech Research Fellow at Stanford University and teaches at American University and Ewha Womans University.

Look Ahead With Stoicism—and Optimism

[Declarations]

By Peggy Noonan

The accomplished and sophisticated attorney was asked what attitude he was bringing to the new year. "Stoicism and mindless optimism," he laughed, which sounded just about right. He meant it, he said, about the stoicism. He had immersed himself in that rough old philosophy after 9/11, and had come to adopt it as his own. But he meant it about the optimism, too: You never know, things get better, begin with good cheer, maintain your equilibrium, don't lose your peace.

We're at the clean start of a new decade, and it wouldn't be bad if the national watchwords were repair, rebuild and return, with an eye toward what is now our central project, though we haven't fully noticed, and that is keeping our country together. So many forces exist to tear us apart. We have to do what we can to hold together in the long run.

We have been through a hard 10 years. They were not, as some have argued, the worst ever, or even the worst of the past century. The '30s started with the Great Depression, featured the rise of Hitler and Stalin, and ended with World War II. That's a bad decade for you. In the '60s we saw our leaders assassinated, our great cities hit by riots, a war tear our country apart.

But the 'OOs were hard, starting with a disputed presidential election, moving on to the shocked pain of 9/11, marked by an effort to absorb the fact that we had entered the age of terror, and ending with a historic, world-shaking economic crash.

Maybe the most worrying trend the past 10 years can be found in this phrase: "They forgot the mission." So many great American institutions—institutions that every day help hold us together—acted as if they had forgotten their mission, forgotten what they were about, what their role and purpose was, what they existed to do. You, as you read, can probably think of an institution that has forgotten its reason for being. Maybe it's the one you're part of.

We saw an example last week with the federal government, which whatever else it does has a few very essential missions to perform that only it can perform, such as maintaining the national defense. Our federal government now does 10 million things, many of them not so well. Its attention is scattered. It loses sight of the essentials, which is part of the reason underpants bombers wind up on airplanes.

Wall Street the past 10 years truly and profoundly lost sight of its mission. It exists to be the citadel of American finance. Its job is to grow and invest and enrich, thereby making the jobs possible that help family exist.

Wall Street has a civic purpose. But it must always do its job with an eye to prudence, because a big part of its job is to provide a secure and grounded economic footing for the nation. But throughout the '00s Wall Street's leaders gave themselves over to one thing, and that was looking out, always, for No. 1. And they knew how to define No. 1. It wasn't the country, and it wasn't even the company. They'd crater companies, parachute out, and brag about it later.

If there was one damning and utterly illustrative quote that captured Wall Street in the past 10 years it was that of Charles Prince, CEO of Citigroup, in July 2007. Worrying investment trends were beginning to emerge, but why slow down? He told The New York Times, "As long as the music is playing, you've got to get up and dance." This from a banker, a leader, a citizen, a man responsible for a community.

Getty Images

Congress forgot the mission, or rather continued more than ever to seem to have forgotten the mission. They weren't there to legislate with a long view, they were there to be re-elected and help the team, the red one or the blue one. This is not a new story, only a worsened one.

The Catholic Church, as great and constructive an institution as ever existed in our country, educating the children of immigrants and healing the weak in hospitals, also acted as if it had forgotten the mission. Their mission was to be Christ's church in the world, to stand for the weak. Many fulfilled it, and still do, but the Boston Globe in 2003 revealed the extent to which church leaders allowed the abuse of the weak and needy, and then covered it up.

It was a decades-long story; it only became famous in the '00s. But it was in its way the most harmful forgetting of a mission of all, for it is the church that has historically given a first home to America's immigrants, and made them Americans. Its reputation, its high standing, mattered to our country. Its loss of reputation damaged it. And it happened in part because priests and bishops forgot they were servants of a great institution, and came to think the great church existed to meet their needs.

A variation of this attitude continues in the public schools, where there are teachers who forget they have a mission—to teach and guide the young—and instead come to think the schools exist for them, to give them secure jobs and meet their needs.

Name the institution and you will probably see a diminished sense of mission, or one that has disappeared or is disappearing. Journalism too the past decade—longer—has had trouble remembering why it exists, which is to meet a real and crucial public need for reliable information about the world we live in. It's the job of journalists to find the news, to get it in spite of the myriad forces arrayed against getting your hands on it, to report it clearly and honestly.

And as all these institutions forgot their mission, they entered the empire of spin. They turned more and more attention, resources and effort to the public perception of their institution, and not to the reality of it.

Everyone gave their efforts to how things seemed and not how they were. Press secretaries, press assistants, media managers, public relations experts—they abound more than ever in our business and public life. Half the people in Congress are people who one way or another are trying to "communicate" the member's thinking. But he's not really thinking, he's positioning, and they're not thinking either, they're organizing and deploying focus-grouped phrases and turning them into talking points.

So what to do? Here my friend the lawyer's stoicism and mindless optimism might come in handy, for turning around institutions is a huge, long and uphill fight. It probably begins with taking the one thing we all hate to take in our society, and that is personal responsibility.

If you work in a great institution: Do you remember the mission? Do you remember why you went to work there, what you meant to do, what the institution meant to you when you viewed it from the outside, years ago, and hoped to become part of it?

And an optimistic idea, perhaps mindlessly so: It actually might help just a little to see national hearings aimed at summoning wisdom and sparking discussion on what has happened to, and can be done to help, our institutions. This wouldn't turn anything around, but it could put a moment's focus on a question that is relevant to people's lives, and that is: How in the coming decade can we do better? How can we repair and rebuild?

IN DEPTH

Google, India and the limits of liberty

Continued from first page

rial and, occasionally, helping to track down users. Under a law that took effect in October, corporate officials from any Web site that fails to comply with requests to take down material or block sites can face a fine and a jail sentence of up to seven years.

India is a secular state, but its people are predominantly Hindu, with a large Muslim minority and significant populations of other religions. Religious and caste tensions have periodically erupted in bloodletting in the 62 years since independence from Britain. In 1992, Hindu activists destroyed a mosque that they believed to be the birthplace of the Hindu deity Rama, setting off riots that killed more than 1,000. The memory remains raw in India.

"If you are doing business here, you should follow the local law, the sentiments of the people, the culture of the country," says Gulshan Rai, an official in the Ministry of Communications and Information Technology, who is overseeing implementation of the new law. "If somebody starts abusing Lord Rama on a Web site, that could start riots," he said.

Iqbal Chagla, a leading Indian attorney on civil liberties and public interest litigation, says fears of public rioting sparked by Web content—or incendiary content in any medium—are overstated. "Communal tensions become largely an excuse for denial of civil liberties and denial of freedom of speech," Mr. Chagla said. "It's a very thin line that's being tread."

Still, Google has learned to be wary of material that could ignite unrest, from incendiary comments about politicians such as Congress Party President Sonia Gandhi to user groups bashing revered historical or religious figures.

"In those gray areas it is really hard," says Nicole Wong, Google's deputy general counsel, who oversees the legal aspects of new Google product launches. "On the one hand, we believe very strongly in political speech and, on the other hand, in India they do riot and they blow up buses."

Google's policy, Ms. Wong says, is to review material flagged by Indian users of Orkut and other Web services it owns, such as YouTube. Google checks whether the content violates its global rules for users, which ban materials like child pornography and hate speech. The company pledges to abide by the laws of the countries it operates in. In India, that means removing some content from the local versions of its sites, such as orkut.co.in.—the default page users see when accessing Orkut from India. Google says it only takes down content brought to its attention by users or law enforcement authorities and only when it considers the requests valid. The company cannot control what content is posted on third-party Web sites found through its search engine.

There are several user groups on Orkut with harsh rhetoric targeting political and religious figures. One anti-Sonia Gandhi group has an "X" through her photo and describes her as "Lady Hitler," accusing her of not supporting the cause of ethnic Tamil separatists in Sri Lanka. (Ms. Gandhi's husband, former Prime Minister Rajiv Gandhi, was assassinated in 1991 by a Tamil Sri Lankan extremist.) Congress Party representatives didn't return calls seeking comment.

Google began ramping up in India in 2007 to capitalize on burgeoning Internet use. The country has about 52 million Web users, according to the International Telecommunication Union, making it one of the largest markets in the world. There is room for growth because only about 5% of India's population is online. Google declined to comment about the finances of its India operation.

Orkut, with 17.6 million users in India in October, is the country's third-most visited Web site, according to comScore Inc. Google acknowledges that it was taken aback early on at how the site gave rise to explosive debates on topics like religion and politics. In mid-2007, the company began fielding complaints from police and users about profile pages with derogatory comments about figures living and dead. These have included B.R. Ambedkar, an architect of India's Constitution who was an activist for lower-caste Indians, and Ms. Gandhi of the Congress Party.

The Web giant ran into particularly fierce opposition from supporters of the Shiv Sena, a Hindu nationalist political party that wants to increase the influence of ethnic Marathis—natives of Maharashtra, the state that includes Mumbai.

In June 2007, Shiv Sena supporters stormed cyber cafés outside Mumbai, damaging computers and harassing owners, when they discovered postings on Orkut denigrating Balasaheb Thackeray, the group's founder, and Chatrapati Shivaji, a 17th century warrior king revered by Marathis for battling the Mughal Empire. Google removed certain Shiv Sena-related groups at the request of local authorities.

Shailesh Patil, a spokesman for the Shiv Sena, says the group's media division in Mumbai regularly fields complaints from the public about Web sites including Orkut and YouTube and passes them to the companies and local police. Last year Google removed a YouTube video that was "asking questions about Shiv Sena, and whether it is good or bad," Mr. Patil said. "This is a country with a lot of religions and sentimental values," he added. "If that censorship is not there, some people may utilize these mediums to disturb the harmony of the country, and it may lead to chaos."

Mr. Patil said not every site that criticizes the Shiv Sena should be taken down, because that might just give the content more publicity. Recently, a local Web user complained about a site unaffiliated with Google that allows viewers to hurl virtual tomatoes or garlands at politicians. "We told people to throw more garlands, so automatically the proportion of tomatoes will go down," Mr. Patil said. The site is no longer up.

Police in the cities of Mumbai and Pune began paying greater attention to Web content and passing complaints to Google. The Mumbai police set up an around-the-clock facility for trained staff to "cyber patrol" the Web and look for violations, while also responding to outside complaints from Internet users.

The city's cyber enforcement efforts are much broader than Google. Officials are also tracking things like credit-card fraud, pornography and hacking. But one of the nine categories of complaints Mumbai tracks is simply titled "Orkut." Local officials said they keep an eye on other social networking

Reuters

Indian Muslims protest in June 2007 against postings on Google's Orkut site.

Patrolling the web

With Orkut's rise to prominence, Mumbai officials who investigate Internet-related complaints have given the Google-owned social-networking site its own category alongside topics such as hacking and credit-card fraud.

Complaints investigated in Mumbai, 2009 (Through October)

Credit-card fraud	223
Hacking	149
Obscene Web content, fake profiles, defamation	143
Phishing	98
Money-transfer and lottery fraud	67
Orkut	**49**
Obscene cellphone photos	32
Threatening emails	24
Cellphone and email tracking to locate people	7

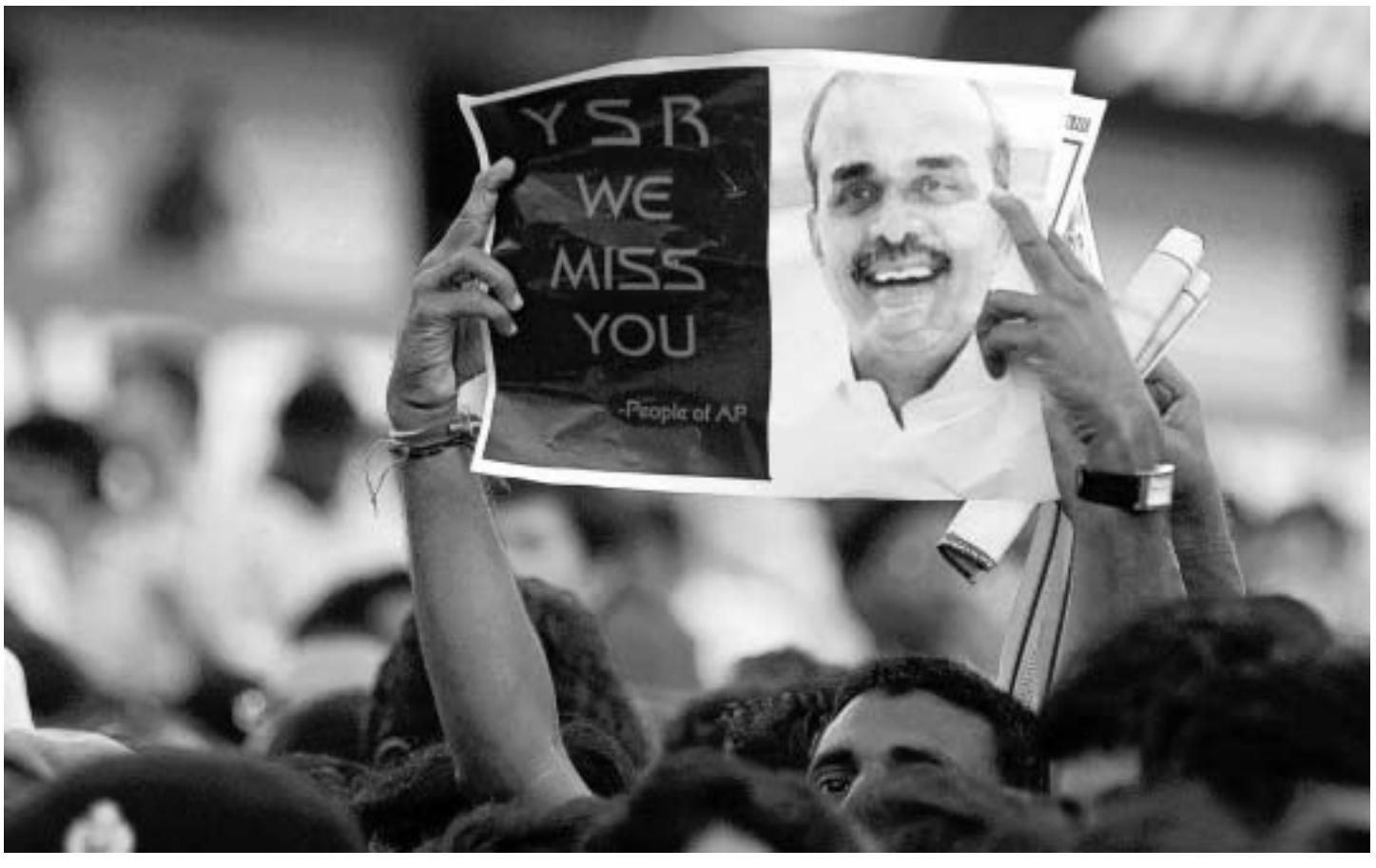
Source: Mumbai Police Department

Information Technology Act of 2008

- Grants the Ministry of Communication and Information Technology the power to block sites and remove specific content on sites to maintain "public order" as well as for national security and to preserve friendly relations with foreign states.
- Requires companies to have a point of contact to receive government blocking requests.
- A committee of Indian officials with representatives from ministries such as Law and Home Affairs would review blocking requests that come through local authorities.
- The accused party/company would have 48 hours to present a case.
- Company officials who don't assist the government when blocking is mandated would face a fine and up to seven years in jail.

IN DEPTH

Associated Press (2)



Y.S. Rajasekhara Reddy, chief minister of India's southern state of Andhra Pradesh, depicted at right, died in a helicopter crash in September. Supporters were outraged after offensive comments about him were posted on a Google site; the company later removed the material.

sites, too, including Facebook, but Google's site receives the most complaints and gets the most attention.

"We're trying to educate youth. Don't think if you're posting something wrong, no one is watching you," said Deven Bharti, a commissioner in Mumbai police's crime branch. "It's just the opposite. Every footprint is being tracked. It's easy to detect these crimes."

Free speech is important, Mr. Bharti said, but religious, regional and caste sensitivities have to be taken into account. "You have to consider India's peculiarities," he said.

The police, central government officials and Google declined to comment on most specific cases in which material has been taken down. But a few have spilled into public view because the police have prosecuted alleged wrongdoers.

In May of 2008, police from Pune arrested Rahul Vaid, a 22-year-old tech worker, for content on an Orkut profile titled, "I hate Sonia Gandhi." He was charged with violating laws against posting obscene content. Google took down the material and gave the user's IP address to police, allowing them to track down his physical whereabouts, said Chandrakant Thakur, a constable sent to make the arrest. Attempts to reach Mr. Vaid were unsuccessful.

Google wouldn't disclose what precisely was posted about Ms. Gandhi, but said it determined the material violated India's obscenity laws. The company said it provided the user's IP address only after police obtained a court order. The defendant was released on bail, and D.M. Bhandkoli, a senior inspector for cybercrime in the Pune police department, declined to comment on the status of the case.

Some Indian Web users are conflicted about how far free speech should go on the Web. "If someone wants to say anything negative about the government or politics, they should be able to express it, but they shouldn't hurt any individual [ethnic or religious] community's feelings," said Gaurav Singh, a 26-year-old New Delhi resident who has been an Orkut member for two years.

Some lawyers say Google doesn't push back much on requests to take down Orkut content. "Sometimes they are uncomfortable about it, but they tend to accede to most requests," said Lawrence Liang, a civil liberties attorney Google consulted in 2007 when it was devising a strategy on how to deal with Orkut controversies in India.

Gitanjali Duggal, Google's in-house litigator in India, says Google now has an organized approach. The company tries—even if it doesn't always succeed—to resist many requests to remove material. "We do have elbow room in exercising our discretion," she said. "Literally on a daily basis we push back on these kinds of complaints."

Ms. Duggal says she has argued to authorities that whatever is allowed in print should be allowed online. The Indian press is full of biting political commentary. Newspaper and television journalists regularly skewer public figures for being corrupt, ineffective, or soft on Pakistan, India's rival.

Ms. Duggal says there has to be something especially incendiary in Internet content to warrant intervention by Google. The company declined to provide any data on the proportion of complaints that result in content removal.

"Saying 'I hate Shiv Sena' is one thing, but saying 'I Hate Shiv Sena because they hate Muslims' is another thing," Ms. Duggal said, because it "brings in the concept of religion." She said Google is especially sensitive to any comments that might be seen as defamatory against a public figure, since libel in India is a criminal offense punishable by jail time.

However murky the free-speech zone in India may be, experts say the country has steered far clear of the systematic censorship of many other countries. Saudi Arabia bans Orkut entirely.

China maintains what many experts believe to be the most sophisticated Web filtering system in the world, known as the "Great Firewall."

Google's Ms. Wong notes that in India, cultural nuances pose a different set of challenges. "India does value free speech and political speech," she says. "But they are weighing the harm of free speech against violence in their streets."

WSJ.com

Online today See a video about Shiv Sena and Google at **WSJ.com/PageOne**

CORPORATE NEWS

AT&T cuts ties with Woods

Company joins other marketers who want to distance themselves from allegations of infidelities

By Suzanne Vranica

AT&T Inc. is severing its ties with Tiger Woods, joining a growing list of marketers distancing themselves from the golfer amid the public furor surrounding allegations of his infidelities.

"We are ending our sponsorship agreement with Tiger Woods and wish him well in the future," said a spokesman for AT&T on Thursday.

AT&T's relationship with Mr. Woods began more than five years ago when the telecommunications company started sponsoring Tiger Jam, an annual star-studded concert that is the biggest fund-raiser for the Tiger Woods Foundation. That contract gave AT&T the right to have Mr. Woods conduct golf clinics for its customers, according to two people familiar with the matter.

The phone giant further expanded its relationship with the golfer in February to include having its corporate logo—a blue and white sphere—appear on Mr. Woods's golf bag. The company picked up the coveted spot after **General Motors** Co. dropped the golfer because of its financial problems. AT&T's extended pact, according to two people familiar with the matter, gave AT&T the right to use Mr. Woods in its ads. However, AT&T hasn't done so.

A spokesman for AT&T said the company wouldn't comment on details of its endorsement contract nor elaborate on the reasons for parting ways with the golfer.

On Friday, a spokesman for Mr. Woods declined to comment.

AT&T's decision to exclude Mr. Woods from ads has limited its public-relations problems, unlike other brands such as Tag Heuer and **Accenture** PLC that relied on the golfer for much of their marketing efforts, said sports-marketing experts.

"There is less fallout for AT&T because there is less public awareness of Tiger's relationship with AT&T," said Kevin Adler, founder and president of Engage Marketing Inc., a Chicago sports and entertainment marketing firm. "You couldn't walk through an airport without seeing a Tag or Accenture ad with Tiger," he said.

Accenture, the global consulting firm that severed ties with Mr. Woods in December, used the golfer as the centerpiece of its marketing-and-advertising program, and he appeared in most of its ads.

Swiss watchmaker Tag Heuer, one of the companies that has said it would stand by Mr. Woods, has dialed back ads featuring him in the U.S. Tag Heuer is a unit of the luxury-goods company **LVMH Moët Hennessy Louis Vuitton** SA.

AT&T said its sponsorship agreement with Tiger Jam has expired, but it will continue to sponsor the AT&T National, a PGA Tour golf tournament held in July that has been hosted by Mr. Woods and benefits his charitable foundation. "We look forward to a successful 2010 tournament," the spokesman said.

Mr. Woods won't be hosting the event this year because he is on an indefinite leave from professional golf, according to Ty Votaw, a spokesman for the PGA Tour. Still, Mr. Woods's charity, the Tiger Woods Foundation, will continue to be the beneficiary of the AT&T National, Mr. Votaw said.

The revelations about Mr. Woods' personal life have created a public-relations nightmare for the companies that paid millions of dollars to hitch their brands to Mr. Woods. The golfer earned roughly $90 million a year from his endorsement pacts.

Each company has handled the situation differently. **Nike** Inc. and sports-memorabilia retailer **Upper Deck** Co. have said they will stand by the 34-year-old Mr. Woods, while **Procter & Gamble** Co.'s Gillette unit has limited Mr. Woods' role in its marketing programs.

Getty Images

Tiger Woods at the 2009 AT&T National, which he won't be hosting this year.

Samsung tops its sales target for LED TVs

By Jung-Ah Lee

SEOUL—**Samsung Electronics** Co. said Sunday that it sold 2.6 million units of LCD television sets with light-emitting-diode, or LED, backlight technology in 2009, up from its initial target of about two million units.

Samsung, the world's largest liquid-crystal-display television maker by volume, also said it expects its LED-backlit LCD television sales to rise nearly fourfold to 10 million this year, which suggests the electronics company is likely to continue to cement its dominant position in the global LCD television market amid intensifying competition in a fast-growing segment.

"Samsung plans to make an aggressive move to help its LED TV lineups make up more than half of its total TV models this year," the company said in a prepared statement. Samsung intends to launch eight LED TV series this year in sizes ranging from 19 to 65 inches, compared with three such series last year in sizes ranging from 32 to 55 inches, according to the statement.

The move will likely accelerate the industry shift to the more advanced technology as the LED television set is largely expected to become the mainstream flat-screen TV, superseding the dominant LCD TV that uses cold cathode fluorescent lamp, or CCFL, backlight technology.

LED television sets are thinner and have brighter displays and higher energy efficiency, compared with traditional LCD television sets.

Samsung Electronics also said it will first unveil its three-dimensional LED television set at the Consumer Electronics Show 2010, scheduled to start Thursday in Las Vegas. The technology will allow consumers to watch three-dimensional movies, television channels and videogames at home with the help of special glasses.

FROM PAGE ONE

Asia is in a prime spot to ride the recovery

Continued from first page

the economy humming.

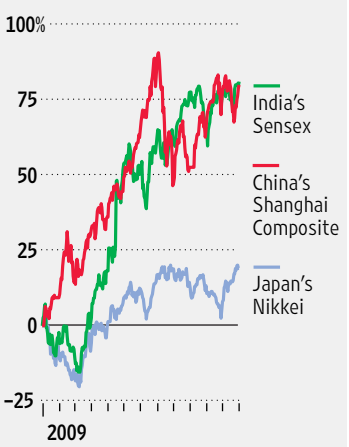
China's stock market anticipated that spending gusher and powered out of the gates in early 2009 , avoiding hitting a new low even as markets in much of the rest of the world found their nadirs in early March. The benchmark Shanghai Composite Index hit its low point in October 2008. It rose 80% in 2009, but remains 45.7% below the October 2007 peak.

"It certainly surprised us how strong domestic conditions were to take some of that slack left by the collapse in exports," says Michael Lai, investment director for asset management firm GAM in Hong Kong. He thinks consumption will continue to be the backbone of the economy in 2010 and will drive consumer cyclical stocks in China.

Asia's head start in the recovery attracted a torrent of investment cash into the region. Asian investment funds outside Japan took in $25 billion in 2009, besting the previous record of $20 billion in 2007, according to data firm EPFR Global.

Asia's markets

Performance of benchmark indexes



Source: Thomson Reuters via WSJ Market Data Group

Those inflows boosted local currencies and made returns for holders of Asian stocks even greater in dollar terms. Currencies in South Korea, Japan, Thailand, Indonesia and Australia all posted strong increases against the dollar in 2009.

Hong Kong's and Singapore's stock markets, two of the region's most liquid, became major buying targets for overseas investors seeking to benefit from China's growth. The benchmark Hang Seng Index rose 52%, its biggest one-year leap in a decade, and Singapore's Straits Times Index climbed 64.5% to end at its highest close since Aug. 1, 2008.

The money inflows from outside the region, combined with China's 30% money supply growth, reinflated markets. But the upswing also caused policy makers to contemplate whether new and dangerous bubbles were forming in Asia, leading investors to expect interest-rate increases early in 2010.

Despite the gains in 2009, investors say market values aren't in bubble territory yet. Some believe that as corporate earnings expand during the recovery, stocks can continue to rise without valuations rising too high. Asian stocks trade around 2.1 times book value. During the market peak in 2007 that valuation measure hit 3 times, suggesting there still may be room to run.

Investors are betting Asia will expand healthily on the back of continued government stimulus and rapidly growing domestic consumption. Even modest growth in the U.S. and Europe, the usual source of demand for Asia's exports, would be enough to keep Asia's companies humming, said Sakthi Siva, emerging markets strategist for Credit Suisse in Singapore.

Should demand pick up in the West faster than expected, Asia could enter a period of supercharged growth. But fear of inflation would follow quickly.

And should demand pick up in the West faster than expected, Asia could enter a period of supercharged growth. But that also would raise fears of inflation and put pressure on policy makers to hit the brakes.

Asian central banks already are contemplating removing the ultralow interest rates imposed during the depths of the financial crisis. But in the past, Asian policy makers have waited for the U.S. Federal Reserve to raise rates before acting themselves. The U.S. is a long way from raising rates and Asia is a step ahead in the economic cycle. Real-estate and food prices are already rising.

"Yields rising will cause investors to pause and question growth," says Adrian Mowat, Asia and emerging markets strategist for J.P. Morgan Chase. But rising rates won't necessarily snuff out the bull market. "Don't be afraid of higher interest rates if it's to remove the medicine" needed during the crisis, he says. "Worry about it if it's about inflation concerns."

Japan must take radical action or face a third lost decade
HEARD ON THE STREET 36

After 800 years, time for Cambridge to sell bonds
MARKETS 30

BUSINESS & FINANCE.

Monday, January 4, 2010 THE WALL STREET JOURNAL. asia.WSJ.com

China has big appetite for M&A

[The View from Hong Kong]

By Peter Stein

HONG KONG—China's new year's resolution: Buy more overseas assets, especially resources.

Sound familiar? It's the same resolution China made last year, and the year before.

China's outbound mergers and acquisitions totaled $43.39 billion in 2009, according to Dealogic. That was down from $50.33 billion in 2008, but only because China's most ambitious deal of the year, Aluminum Corp. of China's proposed $19.5 billion alliance with Rio Tinto, was thwarted when Rio opted for a tie-up with BHP Billiton instead.

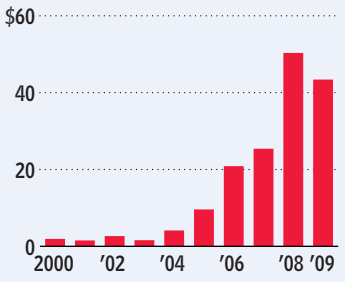
The results of China's overseas buying binge, which first went into overdrive in 2008, are astonishing. Total outbound M&A in 2008 and 2009 alone surpassed all China's outbound M&A for the previous eight years

Don't expect the action to let up soon.

Please turn to page 24

Buying binge

China's outbound M&A, in billions of U.S. dollars



Source: Dealogic

On Street: Talk, not change

Despite vows to transform finance sector, some firms boost leverage; swaps still opaque

By Gregory Zuckerman

Stephen Webster

So much has changed over the past year.

Or has it?

On the heels of the most harrowing period for financial markets since the Great Depression, politicians, regulators, investors and Wall Street executives shared a vow: never again. They would reform the system and change behavior to prevent another financial calamity.

Some significant changes have been made, such as slashing Wall Street's debt, scrutinizing compensation, simplifying financial products and potentially increasing surveillance of financial markets.

But more than a year after Lehman Brothers, **American International Group** Inc., **Fannie Mae**, **Freddie Mac** and Washington Mutual either collapsed or were saved by the U.S. government and financial markets swooned, it is striking how little on Wall Street has changed.

Indeed, the surge in markets around the globe last year suggests that fear has been replaced by relative complacency.

"We've been successful in identifying, appreciating, and debating the big systemic issues," says Daniel Alpert, managing partner of Westwood Capital LLC, a New York investment bank.

"But we've done precious little to effect measures that reliably protect the future of our global financial system," Mr. Alpert says.

That banks and Wall Street firms have slashed their debt is a positive step since it was this heavy borrowing that put them in a precarious position. Most major investments banks now borrow money at about half 2007 levels, according to research firm CreditSights.

These levels are "more manageable and don't pose inordinate systemic risk," says David Hendler, a CreditSights analyst. "We won't go back to [previous levels] for years."

During the two decades leading up to the financial crisis, financial products became increasingly complex. Collateralized debt obligations, or CDOs, begat "synthetic CDOs" which begat "CDO-squareds."

Eventually, senior executives didn't understand products their own firms had created, and the firms held too many of these products for themselves.

Lately, however, financial firms are shying away from churning out complicated, newfangled products, potentially reducing the likelihood that a big firm will be caught with unexpected losses.

A year after Bernard Madoff acknowledged the biggest Ponzi scheme in history, a scam that regulators missed for years, there are signs they are stepping up their scrutiny.

Hedge fund **Galleon Group** is being investigated for alleged insider trading, and some recent reforms have been unveiled at the Securities and Exchange Commission. The SEC is scrutinizing flows of information on Wall Street—where traders, bankers, lawyers and other players swap information and favors.

Meanwhile, changes in the way Wall Street's employees are paid may reduce the incentive to embrace risky short-term moves.

Bonuses for 2009 that will be paid to the top 30 **Goldman Sachs Group** Inc. executives will be in stock that can't be sold for five years, rather than cash. (Most employees at the firm will still have cash as a component of their bonuses, however.) At **Citigroup** Inc. and other firms, base salaries have been raised, and bonuses cut.

Employees of smaller banks still benefiting from the U.S. government's Troubled Asset Relief Program face other curbs on pay, and the U.K. has instituted even stricter measures, though many larger banks have handed TARP money back to the government, allowing them to hand out big bonuses if they choose.

But some suspect it will be business as usual once the government money is paid back. Wall Street firms still generally pay more than half their revenue to employees as compensation, a figure that actually climbed over the past year.

Despite predictions that the financial sector would shrink dramatically, allowing brain power to be employed in other fields, the head count in the financial industry is down just 10% in the past year, according to the Securities Industry and Financial Markets Association.

And while firms have cut their

Please turn to page 25

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YEAR-END REVIEW: MARKETS & FINANCE

For rebuilt markets, a test in 2010

Government saved the financial system from collapse. Now investors have to stand on their own

By Tom Lauricella

Financial markets staged a remarkable recovery in 2009, coming back from the brink of disaster thanks to unprecedented rescue efforts by governments around the globe.

The question now facing investors is how the markets will stand on their own in 2010.

After tumbling 25.4% to a 12-year low in March, the Dow Jones Industrial Average staged a blistering rebound to finish the year up 18.8% at 10428.05. The broad Standard & Poor's 500-stock index rose 23.5% to 1115.10 in 2009.

It wasn't just big stocks that rallied. Encouraged by government efforts to restart the financial system and stimulate the economy, investors who had fled from all but the very safest investments in 2008 dove back into the most volatile stocks and bonds, racking up big gains along the way.

The Dow's low point on March 9, when it was down 53.8% from its all-time high in October 2007, turned out to be the start of a powerful rally. Although the gains slowed in December and the Dow slid 120 points on the last day of the year, it finished 2009 up 59.3% from its March low, the fastest climb since 1933. The Nasdaq Composite ended 2009 78.9% above its March low and up 43.9% for the year.

Companies in sectors that had taken the biggest beating in 2008 and early last year surged, including autos and basic materials. **Ford Motor** shares more than quadrupled to $10, while **Freeport-McMoRan Copper & Gold** more than tripled.

"You had an unprecedented amount of stimulus—both fiscal and monetary ... and you had unprecedented degrees of skepticism and pessimism," says Scott Migliori, chief investment officer for RCM Capital Management in San Francisco.

Going into the new year, the economy seems to be showing enough momentum that few investors fear a sudden dip back into recession, although most still expect a slow recovery. Corporate earnings, which have been far stronger than expected thanks to aggressive cost-cutting, seem on track to close out 2009 with another solid reading.

The market continues to benefit from the Federal Reserve's pledge to keep interest rates low for an "extended period" and the federal government's stimulus dollars that continue to pour into the economy. Stock-market valuations, while not cheap, aren't so rich that investors see better opportunity in other assets. If anything, many investors are more wary of a meaningful pullback in corporate-bond prices after a big rally in 2009.

Although many analysts expect the stock market to end 2010 with gains, they see some bumps along the way. A major unknown is how the markets will fare once the Fed starts siphoning off some of the unprecedented amounts of cash it pumped into the financial markets to the support the economy.

Investors will pay close attention to hints from the Fed as to how it's going proceed, and watching for any signs that the central bank's exit strategy is proving disruptive. They especially will watch the housing market, which has been propped up by the Fed's successful effort to keep mortgage rates low through purchases of mortgage-backed securities.

In the past, the onset of interest-rate increases "at the very least led to some consolidation and indigestion," says Ronan Carr, European equity strategist at Morgan Stanley. Although he predicts a "strong year" for stocks, he adds that, "our fear is that you do have a negative effect on growth in 2011 on the back of tighter monetary policy."

Investors could decide the Fed is risking an inflation flare-up if it keeps rates too low. That could lead to a rise in long-term interest rates that could hurt the housing market.

Also hovering over the markets is a fear that the massive U.S. government deficit will lead to a steep decline in the dollar.

"The challenge going into [2010] is the costs associates with massive deficit spending and keeping interest rates at zero for an extended period of time," says Jason DeSena Trennert, chief investment strategist at Strategas Research Partners.

While many companies posted big stock gains in 2009 simply because it turned out they weren't going out of business, investors this year will be more discriminating, Mr. Trennert says. Companies "aren't going to get extra credit for just surviving; you're actually going to have to perform."

Looking back on the past year, Mr. Trennert says, "the good news is we're still standing and we've survived."

As good as 2009 was, the Dow remains down 26.4% from its all time high of 14164.53, and more discouraging, is down 9.3% from 10 years ago. For the Dow, which began in 1896 and now has 30 components, it was the worst decade since the 1930s, when it dropped 39.5%.

Measured more broadly, stocks traded on the New York Stock Exchange have lost an average of 0.32% per year, including dividends, since the end of 1999. That makes it the worst calendar decade for stocks going all the way back to the 1820s, when reliable stock market records begin, according to data compiled by Yale University finance professor William Goetzmann.

Many individual investors remained skeptical. Between March and the end of November, they pulled $13 billion out of U.S. stock mutual funds and poured $239 billion into bond funds, according to Morningstar Inc.

Although some of the money heading into bond funds reflected a shift out of money-market funds yielding essentially zero, as recently as November, investors were still exiting from U.S stock funds, withdrawing $7.7 billion that month.

"We're probably still only in the early stages of a potentially big economic recovery but I think it's probably not until well into next year that investors begin to broadly recognize it," says Thomas Lee, U.S. equity strategist at J.P. Morgan Chase.

Mr. Lee thinks there's enough slack in the job market to keep inflation from becoming an near-term threat as companies begin hiring. That, in turn, should allow the Fed to keep interest rates low for a prolonged period of time, he says.

RCM's Mr. Migliori also thinks 2010 will get off to a good start. Many of the trends that helped stocks rebound "will carry forward at least through the first and second quarters," he says. However, "as you get into the latter stages of 2010, he says, "a lot of the tail winds from monetary and fiscal stimulus are likely to become more headwinds."

Mr. Migliori thinks the market is especially vulnerable to the risk of the Fed raising rates, even if it's just by a half or three-quarters of percentage point. "Given the fact that stocks have essentially gone straight up from March 9, it could be enough to cause a decent-sized correction as folks recalibrate their expectations for Fed actions," he says.

Ultimately, however, he expects a decent year for stocks as the economic recovery takes hold. Improving fundamentals "should be enough to offset a modest rise in rates," he says, especially among technology and energy stocks.

Split personality

After a 25% plunge at the start of 2009, the Dow Jones Industrial Average posted the biggest recovery since 1993.

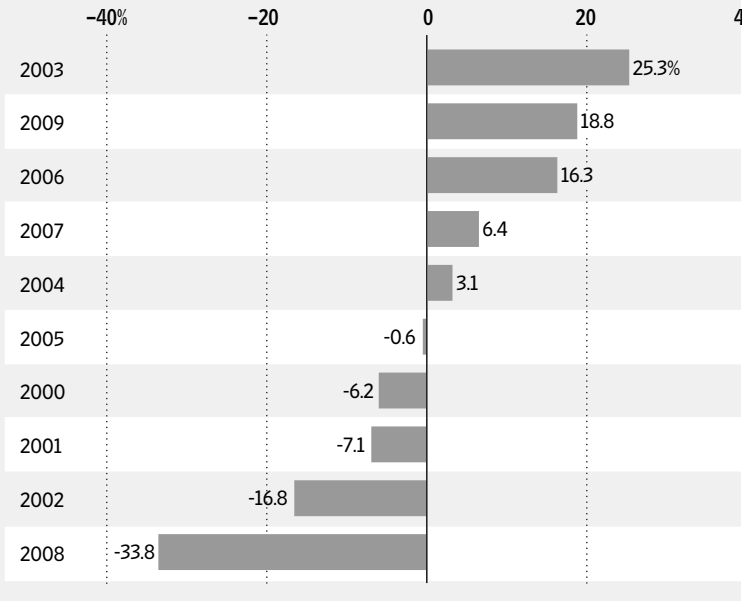
Source: WSJ Market Data Group

Bloomberg News

The trading floor of the New York Stock Exchange after the end of trading on Dec. 31

Second best

In a decade in which the Dow Jones Industrial Average lost 9.3%, 2009 compares pretty well. Annual performance:



Source: WSJ Market Data Group

Corrections & Amplifications

A headline with a page-one photograph in the Dec. 31-Jan. 3 issue showing Japanese Prime Minister Yukio Hatoyama incorrectly called him president.

A photo of Arindam Ghosh, a vice president at consulting firm Analysis Group, appeared with an article in the Dec. 31-Jan. 3 issue about the Galleon insider-trading case. Because of incorrect information provided by Bloomberg News, Mr. Ghosh was misidentified as Intel Corp. executive Rajiv Goel, a defendant in the Galleon case.

If the U.S. International Trade Commission finds in favor of a domestic industry, duties on future imports are likely to be imposed. A Business & Finance article Wednesday on a steel dispute between China and the U.S. incorrectly said such a finding could lead to fines and/or import quotas.

YEAR-END REVIEW: MARKETS & FINANCE

The world champ for IPOs was Asia

China by itself beat the U.S. and Europe combined in number of deals and value; in 2010, a global pickup

By Lynn Cowan

Asia dominated initial public offerings of stock in 2009, with Europe and the U.S. lagging behind. But bankers expect a pickup in activity around the globe in 2010.

In terms of the number of IPOs last year, no region of the world was more active than Asia, with Chinese and South Korean companies leading the way and completing 183 and 61 deals, respectively, according to data provider Dealogic.

By comparison, companies based in Europe generated 62 IPOs and the U.S. saw 54 new listings.

Few analysts, if any, were surprised by China's ascendance to the top of the heap; the country began dominating the IPO market in the third quarter and ramped up even more in the fourth.

"Places that either were less affected by the financial crisis or had higher amounts of stimulus were going to have the most IPOs. China had both of those characteristics to some degree," said Jeff Bunzel, head of equity capital markets at Credit Suisse Group.

Asia also ruled dollar volume raised by new-stock launches: Chinese companies alone sold $50.4 billion, or 45%, of the global total and 62% more than Europe and the U.S. combined.

The U.S. listed $24 billion of deals during that time, while European companies logged just $7.1 billion, according to Dealogic.

Outside of Asia, nearly every region of the globe saw the number of IPOs completed fall by double-digit percentages. On a global basis, the total number of IPOs in 2009 declined 19% to 560, according to Dealogic. However, the size of deals trumped 2008, with the amount raised increasing 44% to $110.9 billion.

Much of the gain in dollar value was driven by China, but Brazil turned some heads, too.

Although only six offerings were done there, two were whoppers: the largest deal of the year, $7.5 billion by **Banco Santander Brasil** SA, and the fourth-largest, $4.3 billion by **VisaNet**, formally called Cia. **Brasileira de Meios de Pagamentos**.

"There's a high correlation between high-growth countries and IPO issuance. So we should see more volume out of China, India and Latin America, especially from Brazil, in 2010," said Matt Johnson, global head of equity syndicate at Barclays Capital.

Mr. Johnson and others said that while China will continue its lively step, 2010 could mark a turning point for both Europe and the U.S. after two years of anemic numbers.

"Where it will be disproportionately active will be in the U.S. and Europe, on a relative basis compared to" last year, said Mark Hantho, global head of equity capital markets at Deutsche Bank AG.

The flow of U.S. listings is expected to build on the gradual increase seen this past autumn. Though still nowhere near 2007 levels, the last year before the global economic crisis sapped IPO issuance around the world, the pace of IPOs from October through December improved over the same period in 2008, when just one IPO priced.

"In the last three or four months, we've seen a return to normalized IPO activity. The numbers are still well below what we've seen historically, but the momentum in both completed offerings and the filed backlog is very encouraging for 2010," said Mohit Assomull, head of U.S. equity syndicate at Morgan Stanley.

That isn't to say every deal that gets filed will work; the last month of 2009 had its fair share of flops in the U.S., with five of the six last IPOs pricing below the expected range and only one ending its first day with a percentage gain.

"I think we are still dealing with this issue of some degree of economic uncertainty out there, so some sectors appear to be faring better than others. New filings reflect that to some degree: technology, health care, education and business services are where we are seeing a fair amount of activity," said David DiPietro, president of specialty investment bank Signal Hill.

In Europe, the number of IPOs completed during the year declined 65% and the dollars raised fell 54% compared with 2008, according to Dealogic.

There were only two European companies that made it into the bottom quartile of the largest 20 listings world-wide: 17th-ranked **Delta Lloyd** NV of the Netherlands, which raised $1.6 billion, and 18th-ranked **CFAO** from France, which raised $1.4 billion.

One region where there still is uncertainty is Eastern Europe and Russia. While companies there are preparing for IPOs, bankers said it is impossible to determine when pricings could occur.

"We have a number of mandates in Russia and Eastern Europe, but those are very volatile markets. So whether they are completed in the first quarter of 2010 or well beyond is not something that anyone can predict right now," said Lisa Carnoy, global head of equity capital markets for Bank of America Merrill Lynch.

Elsewhere in the world, bankers generally believe that deal sizes will be larger in 2010 as private-equity funds unload portfolio companies, and as conglomerates carve out business units.

More billion-dollar-plus deals are expected, said Joe Morea, head of U.S. equity capital markets at RBC Capital Markets.

Larger deals would be a boon for investors, he said, because they have more shares and greater liquidity, which lets investors build bigger stakes and trade more easily.

To be sure, expectations for IPO issuance in 2010 depend upon stability in the broader markets world-wide; as investors learned in 2008 and 2009, an economic crisis in one country can spread swiftly.

"The wild card is the equity market, said Viswas Raghavan, head of international capital markets at J.P. Morgan Chase & Co. "Clearly, in recent weeks we have seen the return of volatility and choppy market conditions. It is totally plausible that the current 'rally-correction' market environment is here to stay."

Largest IPOs of 2009

Asian companies ruled the market for initial public offerings last year.

Company	Nationality/Exchange	Value (billions of dollars)
Banco Santander Brasil	Brazil/New York, Sao Paulo	$7.52
China State Construction Eng.	China/Shanghai	7.34
Metallurgical Corp. of China	China/Hong Kong, Shanghai	5.13
Visanet do Brasil	Brazil/Sao Paulo-Novo Mercado	4.26
Maxis	Malaysia/Kuala Lumpur	3.29
China Longyuan Power	China/Hong Kong	2.59
Sands China	Macau//Hong Kong	2.50
China Shipbuilding Industry	China/Shanghai	2.16
Verisk Analytics	U.S./Nasdaq	2.16
PGE Polska Grupa Energetyczna	Poland/Warsaw	2.13

Source: Dealogic

After an up-and-down year, the dollar shifts focus

By Joanna Slater

After powering through the financial crisis, the U.S. dollar flagged in 2009 as investors rediscovered their taste for risk and refocused on the greenback's flaws.

An index from J.P. Morgan Chase that tracks the buck against a basket of 16 currencies finished the year down 5%. That figure masks a considerable swing: At one point in the spring, the index was up as much as 8%, while in the latter part of the year, it had switched to being down by the same percentage.

The dollar staged a short but vigorous rally as the year drew to a close: Economic data out of the U.S. surpassed expectations while countries like Greece and Spain—both users of the euro—suddenly appeared less creditworthy than before.

For some investors, the move raised the tantalizing prospect that a bigger change is under way for the dollar. Rather than trading as a proxy for how much risk investors are willing to take—as it has throughout the financial crisis—the buck may once again rise and fall on the state of the U.S. economy as it compares to its global peers.

Investors are likely to focus on relative economic performance, says Jeremy Urwin, a currency trader at Barclays Capital in New York, instead of simple "risk-on, risk-off" bets. In particular, differences in interest rates between countries "are going to come to the fore" for currencies in 2010, he says.

That could be good news for the dollar, if the U.S. economy continues to exceed expectations while others disappoint. But if the recovery proves more fragile, and if the efforts to fight the financial crisis end up spurring unhealthy inflation, the dollar could stagger backward.

Early in 2009, the dollar appeared unstoppable. The financial system continued to totter, stocks were plunging, and bad economic news was unabated. Investors flocked to the dollar, as they had throughout the crisis, as a possible harbor in a storm.

By April, however, the strenuous efforts by central banks to stem the damage had begun to work. And as investors began to put their cash to work again, some began shunning dollars.

The dollar's slide accelerated in the autumn, when the U.S. appeared to be limping toward recovery, as other economies walked, or even ran. Australia and Norway repeatedly raised interest rates to rein in growth while in the U.S., the Federal Reserve remained firmly on hold at near-zero levels.

The spigot of cheap money from the Fed, aimed at spurring economic activity, encouraged investors to borrow dollars and use them to buy everything from other currencies to stocks to gold to commodities.

The maneuver is broadly known as a "carry trade," or borrowing funds at exceedingly low rates and investing them to earn higher rates of return (or "carry"). Such trades are sensitive to changes in investors' appetite for risk, since volatile market moves can render them unprofitable. When investors get nervous, they often buy back the currency in which they borrowed to fund the carry trade.

For much of the fall, financial markets appeared fixed on a single relationship: the dollar versus everything else. When the dollar weakened, stocks, oil and gold rose, and vice-versa.

The inverse link between the dollar's path and the movement of the Standard & Poor's 500-stock index touched a historical extreme in early December, according to a report from Deutsche Bank. The correlation between the two—a measure of how much they move together, or in opposite directions—was the most negative in more than 30 years, the report said.

December saw an abrupt change. Data on U.S. employment and retail sales provided positive surprises, while investors heard a series of gloomy predictions from credit-rating firms about unsustainable deficits in Greece, whose rating suffered. Adding to the mix: scant year-end trading, which tends to exacerbate price swings. The euro fell almost 6% against the dollar in three weeks.

"It is very tempting to conclude that the world has changed and that the dollar is heading for longer-term gains," Jens Nordvig, a currency strategist at Nomura Securities, said in a recent note. "But the [macroeconomic] news flow has been much less dramatic than the price action."

Late in New York on Dec. 31, one euro bought $1.4316, an increase of 2.4% over a year earlier. However, the dollar managed to squeak out an annual gain versus the yen of 2.6%, fetching 93.08 yen at year's end. Currencies beaten down in the financial crisis like the Australian dollar and Brazilian real came roaring back to life, surging 26% and 33%, respectively, versus the greenback.

At various points during the year, the dollar's status as the world's reserve currency came under scrutiny. It hit headlines in March, when, in an unusual move, China's central bank governor publicly questioned the desirability of a single reserve currency, and suggested a greater role for a little-used artificial currency created by the International Monetary Fund.

However, few believe the dollar's status as the dominant reserve currency is in jeopardy anytime soon, in part because of a lack of alternatives. The euro's own weaknesses have been on display in recent months, given the divergent economic paths of countries like Greece and Germany, which share the currency. Some say the Chinese yuan could assume a larger role in global finance, but that is years away.

Indeed, the Chinese government hewed to its longstanding policy of linking the yuan to the U.S. dollar. Rather than permit some gradual strengthening, as they did in 2008, Chinese authorities held the yuan steady against the dollar throughout 2009. That irked their neighbors, since it meant the yuan effectively weakened along with the dollar late in the year, rendering Chinese exports more competitive abroad.

Losing ground

As the financial crisis abated in 2009, the dollar slumped against the currencies of U.S. trading partners. One exception: the Japanese yen.

J.P. Morgan trade-weighted dollar index

U.S. dollar vs.

	Pct. change in 2009	Per US$ Dec. 31, 2009
Euro*	down 2.4%	€0.6985
British pound*	down 9.7%	£0.6187
Canadian dollar	down 13.6%	C$1.0513
Japanese yen	up 2.6%	¥93.0839
Brazilian real	down 24.7%	1.7431

*€1=$1.4316; £1=$1.6163 at year end

Source: J.P. Morgan; Thomson Reuters via WSJ Market Data Group

YEAR-END REVIEW: MARKETS & FINANCE

World markets in precrisis form

Global stock values saw their fastest rebound in 40 years, analysts say; emerging markets were the stars

By Joanna Slater

The world's stock markets came roaring back to life in 2009 as investors armed with cash roamed the globe in search of higher returns. Taking advantage of rock-bottom interest rates, they snapped up beaten-down shares from São Paolo to Shanghai, sending benchmark indexes rocketing upward.

The stars of the party in 2009: shares in emerging markets. Investors flocked to countries that were either less hobbled by the financial crisis or demonstrating rapid recoveries from any ill effects. Russia's RTS Index exploded by 129%, India's Sensex by 81%, and China's Shanghai Composite by 80%, though all remain significantly off their all-time highs touched in 2008 or 2007. Brazil's Bovespa gained 83%, which puts it within 7% of its 2008 record. The "poorest" performance by a major international market in 2009: Japan, where the Nikkei Stock Average of 225 companies finished the year up just 19%.

The Dow Jones World Index, excluding the U.S., soared 37% in U.S. dollar terms, compared with a 19% gain by the Dow Jones Industrial Average. That marks a return to the kind of performance that preceded the financial crisis, when international stocks outpaced their U.S. counterparts, in part due to a weakening U.S. dollar. A feebler greenback means that gains in foreign currencies are pumped up when converted back into dollars.

Currency moves once again played an important role in international-stock returns in 2009. An MSCI index that tracks shares in developed markets outside the U.S. rose 21% in local-currency terms, but in dollar terms, it jumped 28%.

The year's performance—a scorching rally from extremely low levels, when prices soared even as earnings remained weak—produced the fastest rebound in global stock values in 40 years, Citigroup analysts wrote in a recent report.

Stocks aren't nearly as cheap as they were, the analysts noted, but nor are they hugely expensive relative to earnings. The "combination of reasonable valuations, imminent earnings recovery, and low interest rates means that it is too early to turn cautious," they wrote.

A year of global gains

Stock markets around the world, from Brazil to Indonesia, rose sharply as many economies began to recover.

Dow Jones Global Indexes Ranked by 2009 performance in U.S.-dollar terms

Country	U.S. dollars	Local currency
Indonesia	129.3%	97.7%
Brazil	127.1	69.8
Norway	93.8	59.9
Chile	88.8	50.3
Taiwan	83.1	78.4
Singapore	74.0	69.6
Thailand	71.7	64.6
Australia	70.9	32.5
Philippines	70.4	65.6
Hong Kong	67.4%	67.5%
Sweden	65.5	49.4
South Korea	65.3	52.9
Canada	56.9	33.3
South Africa	56.0	24.2
Austria	55.6	50.7
Ireland	54.7	28.7
Belgium	50.5	45.8
Mexico	48.2	39.7
Malaysia	46.9%	45.4%
Netherlands	42.8	38.3
Denmark	40.8	36.4
U.K.	39.5	24.2
New Zealand	38.8	11.5
Portugal	35.4	31.2
Spain	32.6	28.5
France	28.6	24.6
U.S.	25.7	25.7
Switzerland	25.1%	22.3%
Greece	24.1	20.3
Germany	24.1	20.2
Italy	23.2	19.4
Finland	17.5	13.8
Iceland	10.3	13.4
Japan	4.0	6.8
World	**33.6%**	
World, ex. U.S.	**39.7%**	

Note: Individual country indexes are DJ Global Total Stock Market Index

Benchmark stock-market indexes Ranked by 2009 performance in local-currency terms

AMERICAS

Country/index	Close	Performance
Argentina Merval	2320.73	115.0%
Brazil Bovespa	68588.41	82.7
Venezuela Caracas General	55075.68	57.7
Colombia Bogota IGBC	11602.14	53.5
Chile Santiago IPSA	3581.42	50.7
Mexico IPC All-Share	32120.47	43.5
Canada S&P/TSX Composite	11746.11	30.7
U.S. Dow Jones Industrials	10428.05	18.8

EUROPE AND AFRICA

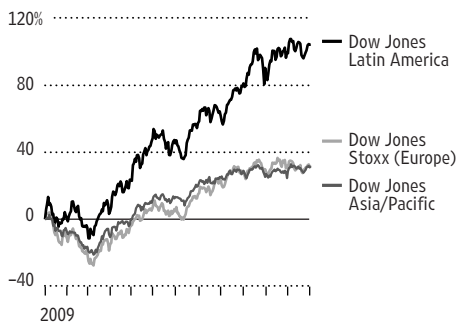
Country/index	Close	Performance
Norway SEBX	371.56	64.8%
Sweden XS All Share	299.50	46.7
Austria ATX	2495.56	42.5
Denmark OMX Copenhagen	315.70	39.6
Netherlands AEX	335.33	36.3
Portugal PSI-20	8463.85	33.5
Belgium Bel20	2511.62	31.6
Spain IBEX 35	11940.00	29.8
South Africa All Share	27666.45	28.6 Johannesburg
Ireland ISEQ	2974.93	27.0
Germany DAX	5957.43	23.8
France CAC 40	3936.33	22.3
U.K. FTSE 100	5412.88	22.1
Finland OMX Helsinki	6456.13	19.5
Italy MIB	23248.39	19.5
Switzerland SMI	6545.91	18.3

ASIA

Country/index	Close	Performance
China Shenzhen A Shares	1261.26	116.9%
Indonesia Jakarta Composite	2534.36	87.0
India Sensex	17464.81	81.0
China Shanghai A Shares	3437.46	79.8
Taiwan TAIEX	8188.11	78.3
Singapore Straits Times	2897.62	64.5
Thailand SET	734.54	63.2
Philippines PSE Composite	3052.68	63.0
Pakistan KSE 100	9386.92	60.0
Hong Kong Hang Seng	21872.50	52.0
South Korea Kospi	1682.77	49.7
Malaysia KLCI	1272.78	45.2
Australia S&P/ASX 200	4870.64	30.9
Japan Nikkei Stock Average	10546.44	19.0
New Zealand NZX-50	3230.15	18.9

Latin America leads

Index performance in U.S.-dollar terms



Sources: Dow Jones Indexes; WSJ Market Data Group; Thomson Reuters

Stock markets in the Americas log heady gains

By Nicholas Casey

Investors began 2009 bracing for more drops in Latin American stocks as global markets plummeted in the worst economic crisis in generations. The declines came as the region's indexes sank to a low point in March.

By year's end, Latin American stocks managed to stage a striking recovery. Even as the region recorded its largest economic decreases in decades, the damage was curtailed by government policies that included using surpluses saved from previous years to provide stimulus money and reduce debt.

Investors responded by pouring the cash back into financial markets that had been stripped away the year before. Indexes surged again; Mexico's IPC index hit all-time highs in December, and Argentina's benchmark index more than doubled.

Morgan Stanley's weighted index of regional stocks, the MSCI Latin America Index, rose 98%, a big reversal from 2008's 53% decline.

In Brazil, the benchmark Bovespa index finished up 83%, its best gain in six years. Shares of **Petróleo Brasileiro** SA climbed nearly 66% for the year, as global demand buoyed prices for oil and investors sought alternatives to less-stable Middle Eastern markets.

In Mexico, the region's IPC index logged a 43% gain this year, with only one of its 35 stocks losing ground. Even as the Mexican economy continued to stagnate, investors anticipated a big recovery in 2010, and the index closed at 32120.47, just shy of its all-time high of 32836.12 in October 2007.

In Argentina, the country's Merval index was up 115%, its biggest annual gain in almost two decades. The rebound also came with a rally in the country's sovereign bonds and a decline in the cost of insuring them against default.

North of the U.S. border, Canada's stock market recovered from its March swoon, lifted by higher commodity prices and bright spots in the country's real-estate market. The TSX/S&P Composite Index, Canada's benchmark index, finished up 30.7% for the year. Stocks in the index are largely in the energy and material sectors, and prices for both staged a recovery during the year.

Latin America's comeback was a combination of preparation and luck. In Brazil, a decade of macroeconomic policies like keeping cash reserves and taming inflation encouraged foreign investment even in the bleakest parts of the year. A robust domestic market, and decreased dependence on the U.S. as its export market in favor of countries like China, allowed the country to avoid a major contraction as analysts estimate flat growth for 2009.

In some cases, recovering commodity prices helped boost stocks. Shares of iron-ore giant **Vale** SA regained their footing in 2009, up 77%. Further gains may be in store as the company in December announced increases in 2010 production and analysts expect the price of iron-ore to rise. And even home builders like **Gafisa** SA, the second largest in the country, doubled after the government slashed interest rates to encourage new homes.

In Mexico, stock prices recovered, even if the economy didn't. The economy, heavily dependent on the U.S., remained weak—tumbling 7% as it awaited recovery for its northern neighbor. But Mexico's biggest companies managed to keep prices high for consumers, even as demand began to erode. Giants like **Axtel** SAB, the Mexican telecom company, were rewarded. Its shares rose 59% for the year.

Forecasts are now for an optimistic 4% economic growth for Latin America given its performance in the past year. "The way the region has managed through the crisis is very different from its past," says Lisa Schineller, an S&P analyst.

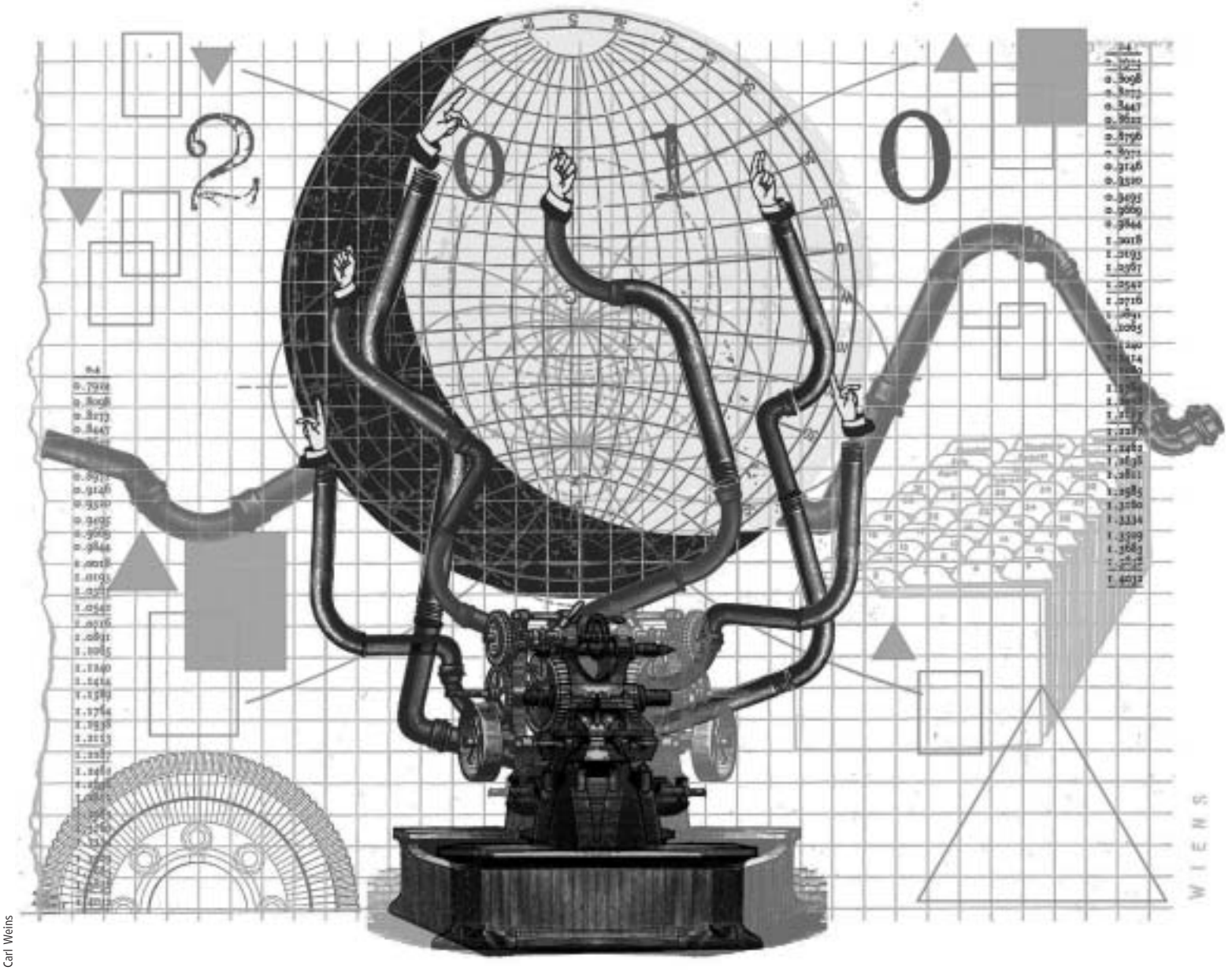
Estimates peg growth in Brazil even higher. Confident the worst is behind it, the country said in December that it won't need to continue its economic stimulus programs in the new year.

YEAR-END REVIEW: MARKETS & FINANCE

Bumps ahead for European shares

Rally in 2009 was the best of the decade, but concerns about the region's economy weigh on investors' minds

By Neil Shah



Carl Weins

After staging the strongest rally in a decade, European stocks are expected to start losing steam at some point in 2010.

Investors gobbled up European stocks in 2009. The pan-European Dow Jones Stoxx index of Europe's 600 biggest companies rose almost 29% to 253.16, its biggest annual percentage gain since 1999, when it gained 36%. (This index lost 46% in 2008, however.)

Individual markets also roared, in many cases returning to levels seen as the financial crisis snowballed in the autumn of 2008.

Germany's DAX index gained nearly 24% to 5957.43, just shy of a 15-month high, while Britain's blue-chip FTSE 100 index rose 22% to 5412.88, its biggest one-year percentage gain in a dozen years.

Many markets farther east fared even better. Hungary's main market soared 73% to 21227.01, while Russia's RTS Index was the region's best performer, rising 129% to 1444.61.

Gradually recovering economies and healthier corporate profits are expected to keep investors interested in stocks for much of this year. But the investment climate will get trickier as the world's major central banks look to start unwinding crisis-era measures that flooded the financial system with money. Also, more attention will be paid to governments struggling with heavy debts, such as Greece, Spain and the U.K.

"It's hard to see things going smoothly without any hiccups," says Daniele Scilingo, head of European stocks at Pictet Asset Management in London, which manages €1.5 billion ($2.15 billion) of European stocks for institutional clients. "What we see is uncertainty, question marks and volatility."

He said he expects European shares to hit major turbulence but still finish the year a little higher.

Last year's gains look even larger when compared with the lows reached in early March. Since March 9, the pan-European Dow Jones Stoxx 600 index soared 60%. A big reason: easy-money policies by central banks. Super-low interest rates have encouraged investors to move out of savings accounts and into higher-yielding investments like European and emerging-market stocks.

> Investor worries have started shifting to the financial health of several countries.

Europe's banks were among the big gainers in 2009 after governments stepped in to rescue the financial system. In the U.K., **Barclays** PLC leapt 80% for the year, while Switzerland's **UBS** AG, one of the biggest casualties of the financial crisis, rose 87% from its March 9 low.

Banking stocks could come under pressure this year as governments withdraw special measures that helped the banks fund themselves cheaply, analysts warn. Global regulators could also move to tighten requirements on the amount of extra capital banks must hold in reserve, hitting their profitability.

More broadly, investor worries have started shifting from banks and the economy to the governments that came to the rescue last year. Concern about the public finances of several countries has intensified in recent months as investors question whether these economies will buckle beneath the weight of heavy debts and budget deficits.

Greece's deficit was forecast to hit 12.7% of its economic output in 2009, while the U.K. also faces a deficit north of 12%.

Illustrating the rising worry, investors are demanding a higher yield premium to hold Greek and U.K. government bonds compared with German government debt, which is considered the European gold standard. To restore investor confidence, these countries will have to raise taxes and cut public spending, a combination that could hurt their fragile economies.

In Britain, such efforts may be complicated by elections that must be held before June. Some expect that Britain's opposition party, the Conservatives, will beat Prime Minister Gordon Brown's governing Labour Party but fail to secure enough support in Parliament to pass major fiscal reforms. That could place Britain's triple-A credit rating in jeopardy. A credit downgrade would increase Britain's borrowing costs at a time when the government needs to borrow a lot of money.

Another major hurdle: Central banks, including those in Europe, are starting to think about raising short-term interest rates from record-low levels. The European Central Bank, which handles monetary policy for the 16 nations that share the euro currency, faces a particularly tough bind: If it moves too fast to normalize interest rates, it could snuff out nascent recoveries in weaker euro economies like Greece. However, if the ECB moves too slowly, it could stoke inflation in stronger economies like Germany.

While there has been debate over when central banks will raise rates—some don't expect increases until 2011—many analysts see the ECB, the U.K.'s Bank of England and the U.S. Federal Reserve at least starting to end emergency-support programs by roughly midyear.

Lurking in the background is the fact that investors still aren't confident that Europe's economy is out of the woods. Even stronger countries like France and Germany could suffer a relapse into recession as governments and central banks take stimulus measures away.

To be sure, corporate Europe has weathered the crisis surprisingly well. In early 2009, investors feared a catastrophic wave of European corporate defaults and bankruptcies that never fully materialized, thanks to the ability of many larger companies to refinance their loans by selling corporate bonds.

Analysts at J.P. Morgan Chase & Co., Deutsche Bank AG and Credit Suisse Group AG all expect European stocks to notch further gains this year as readings of the economy improve and investors put fresh cash to work in an environment of tame inflation.

James Bevan, chief investment officer at CCLA Investment Management in London, says shares in Continental Europe can fare well even when markets are expecting higher interest rates, thanks to the region's relatively low debt levels. He particularly likes Germany, which tends to be sensitive to global manufacturing and trade trends.

But like many bank strategists, Mr. Bevan is worried about midyear wobbling caused by central banks and potential problems in the bond market. He says European stocks may gain but then finish the year lower, with Britain's FTSE 100 index ending at 5000 after hitting 5750.

"The second half of the year is going to be more difficult," he says. "We just haven't gotten much evidence that the economy can sustain itself going into the next [interest-rate] tightening cycle."

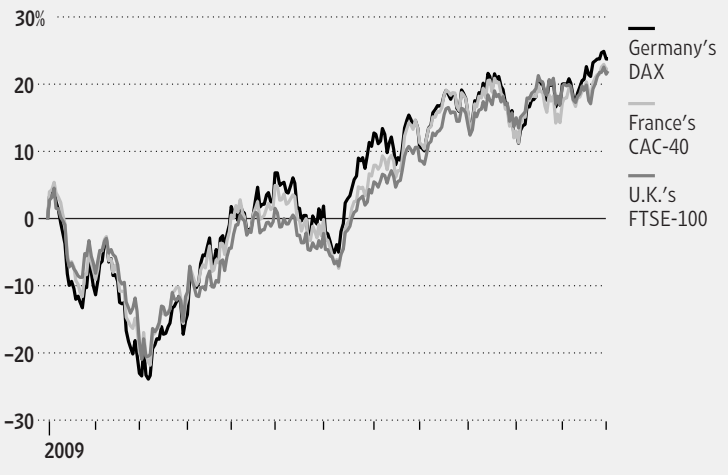
Analysts at Morgan Stanley, meanwhile, are gloomier: They see European stocks losing about 5% in 2010.

An additional concern is that European stocks might not be all that cheap anymore. Pictet Asset Management's Mr. Scilingo says that European shares are trading around 18 times expected 2009 earnings, or higher than their recent average. "We are a touch above where we should be," he says.

As such, he says, this "will be the year to discriminate between what you want to hold, and what's gone up because of the market euphoria."

Europe's markets

Performance of benchmark indexes



Source: Thomson Reuters via WSJ Market Data Group

YEAR-END REVIEW: MARKETS & FINANCE

Oil's boom year brings a bust for gas

Crude tutures take a ride as markets rebound, but worries over supply glut keep gas market's feet on the ground

By Liam Pleven

For crude oil and natural gas, 2009 was a tale of two fuels. One was buoyed by hopes for an economic recovery, and the other lagged behind largely because of worries about the risk of oversupply.

Their divergent paths last year—and the gyrations in recent years—reflect fundamental forces that affect their prices but also underscore the unpredictable outlook for both commodities in months and years ahead.

Oil and natural gas were riding high in mid-2008, before prices plummeted amid the financial crisis. By the end of that year, both had fallen well over 50% from their summertime peaks, amid concern that a battered global economy would translate into much slacker demand.

Beginning early last year, hopes for a relatively smooth economic recovery helped oil prices bounce back sharply. After starting the year at $44.60 a barrel, oil futures rose to $81.37 a barrel on Oct. 21, up more than 80% year to date.

Oil closed 2009 at $79.36 a barrel, up $34.76, or 78%, but still well below its all-time high above $145 a barrel in the summer of 2008.

The price of oil in 2009 more or less tracked concerns about the economy. It fell at the start of the year and started to move higher in mid-February, as the worst fears about the financial crisis began to ease.

As markets rebounded over the rest of the year, oil went along for the ride amid expectations that the main force that had been driving up oil in recent years—emerging-market growth—would again prevail. "Long term, oil demand is rising," said Ben Dell, an energy analyst at Sanford C. Bernstein.

Prices for natural gas, however, were much slower to recover and didn't bounce back as forcefully. After starting the year at $5.622 per million British thermal units, natural gas fell in the early part of the year roughly in line with oil.

Even after oil rebounded, natural gas kept finding new lows for the year, meandering up and down through spring and summer until hitting bottom on Sept. 3, when natural gas settled at $2.508. At that point, prices were down more than 55% for the year, and far below the record settlement price of $15.378, hit on Dec. 13, 2005.

Bloomberg

Natural-gas prices bottomed in September, but supply worry remains. Here, a portion of the Rocky Express gas pipeline in Lancaster, Ohio.

In a sense, the falling price was an indicator of gas producers' success in unlocking supplies. New drilling methods made accessible abundant natural-gas deposits that had been difficult to tap.

But demand can't always easily soak up the extra supply. Natural gas is mostly sold relatively close to where it is produced—it isn't shipped as readily or widely as crude oil. And it is often used to run power plants—which take years to build—and heat homes in cold climates. As a result, it can be hard for the economy to use a lot more natural gas quickly, the way consumers may respond to cheap oil by driving more.

Good times, bad times

Oil bounced back quickly after the financial crisis, but natural gas lagged.

Source: Thomson Reuters Datastream

Still, natural-gas prices recovered toward the end of the year, with the onset of colder weather. The gas market crept back into positive territory for the year on Dec. 17 before closing the year down 0.9%, at $5.572.

Some analysts think abundant natural gas will continue to act as a curb on prices, at least to some extent.

"It will take a long time to close the gap between supply and demand" for natural gas, said Francisco Blanch, global head of commodities research for Bank of America Merrill Lynch.

At the same time, the recent past also shows how unpredictable price swings can be for both commodities. As a result, there is a significant difference between the bearish and bullish forecasts for crude oil and, to an even greater extent, natural gas.

Citigroup expects oil prices this year to average $80 a barrel, while Goldman Sachs has forecast that the price will climb to $92.50 as economies around the world continue to stabilize.

"We're in a sort of wait-and-see environment on oil," said Neil McMahon, an analyst at Sanford C. Bernstein.

Which forecast turns out to be right will depend not only on whether the economic recovery continues but also on factors that are harder to determine. It isn't clear what will happen with Iran, a major oil producer that has been in conflict with Western nations over its nuclear program. It is also unclear how much of current demand reflects China—a rapidly growing consumer of crude—building up reserves, rather than actually burning oil.

"We have a lot of black holes," said Edward Morse, managing director and chief economist at LCM Commodities in New York.

Similarly, there is a wide difference of opinion and tremendous uncertainty about what will happen with natural-gas prices. Forecasts for next year range from $4.75 per million BTUs, from Citigroup, to $9, from Sanford C. Bernstein.

The disparity reflects uncertainty about a variety of factors, from whether the recent drilling breakthroughs will result in long-lasting supply growth, to whether concerns about climate change will result in a decisive move toward natural gas, which is considered a relatively environmentally friendly fuel.

The end result is that while the law of supply and demand held in 2009, there isn't any guarantee that the amount of supply or demand won't change significantly in the years to come.

—Carolyn Cui contributed to this article.

China keeps its appetite for outbound M&A; inbound deals less likely

Continued from page 19

"We believe this trend is very likely to continue given the size of the Chinese economy relative to other economies in the region, and the desire for Chinese companies to expand internationally," says Ed King, head of M&A for Asia Pacific at Morgan Stanley. The main area of focus, he adds, will be resources, which accounted for two-thirds of all China's deals overseas last year.

Iron ore, copper, coal, natural gas and the like are critical to fuel China's growth, and Beijing has made it clear investments abroad that secure access to these resources will get the green light. Potential buyers have had no problem lining up financing from China Development Bank and other state-owned lenders.

As Joseph Gallagher, head of M&A for Asia Pacific at Credit Suisse, puts it: "The only limitation is on the sell side. Are there enough assets to buy and will regulatory authorities in the target markets allow the investments?"

Two of last year's biggest outbound deals involved the acquisition of mining assets in Australia, but Chinese investment in Australia remains a politically sensitive issue. Targets in other countries such as Argentina, where bankers say Chinese oil companies have previously looked at acquiring assets of Spain's Repsol YPF SA, could be even more sensitive.

Price and competition could slow China's efforts as well. A rebound in commodity prices has made resource assets more expensive, and competing buyers from India, South Korea and elsewhere mean China isn't the only game in town.

Some foresee a pickup in China's investment in manufacturing, such as the automotive sector.

"I think they will look at areas where they can add capability and brand," the latter being a traditional area of weakness for Chinese manufacturers, says David Chin, co-head of investment banking for the region at UBS AG.

Chinese companies are already picking through the wreckage of failing U.S. and European car makers for potential deals. In what could be a landmark sale, Ford Motor Co. hopes to reach a definitive deal to offload its Volvo division to **Zhejiang Geely Holding Group** Co. for about $2 billion by early 2010.

A key force in such deals is the lure of taking a foreign asset and exploiting it at home, where the growth potential is more attractive than in mature developed economies.

For Geely, Mr. Chin says, "the driving motive wasn't to buy Volvo and conquer the world, but to buy Volvo and conquer the China market." He and others sees this potentially happening in other sectors, such as technology.

China's investments in Western financial-services companies haven't been terribly popular at home, and few expect more big moves in that direction soon. Still, some selective investment in financial services might be possible next year. Two areas to look out for include nonbank financial companies such as asset managers that have an expertise China lacks, and banks abroad but closer to home, in Southeast Asia for instance.

For all the excitement about outbound Chinese investment, inbound Chinese M&A remains an area where expectations have dropped considerably. One big reason is the lingering chill from last March, when the Chinese government quashed Coca Cola Co.'s $2.4 billion offer for juice maker China Huiyuan Juice Group Ltd. over concerns about its impact on domestic competition.

But beyond that, in a highly liquid environment like China's, good companies just don't need foreign investment like they used to. A revival in Chinese public stock offerings this year has made it tougher for foreign buyers to offer a price that looks competitive.

Any company that earns even $10 million to $15 million in income a year is going to aim for an IPO, explains one banker, rather than do a deal with a foreign strategic buyer.

"It's just hard to see that there will be a lot of big deals," he says.

Rally in metals has legs

Copper led gains, but gold was no slouch; demand to rise in 2010

By Carolyn Cui

Metals finished the year as the best-performing commodities, riding on hopes for a global economic recovery and fears of runaway inflation.

The rally is likely to extend into the new year, as demand from emerging economies remains strong while developed nations are catching up. But it could be capped if central banks slam the brakes on stimulus spending and raise interest rates.

While commodity prices rebounded sharply from lows early in the year, most closed well below records set before the economic crisis began in 2008, underpinning the reality that the recovery has just begun to gather momentum. The Dow Jones-UBS Commodity Index added nearly 19% to 117.24 in 2009, leaving it about 41% off its peak in 2008.

Leading the way in 2009 were base metals. Copper, which has many industrial uses, more than doubled, soaring 139%. It ended the year at $3.3275 per pound but still 18% shy of record prices hit in 2008. Lead, which is used in car batteries, also more than doubled, to $2,416 a metric ton, followed by zinc, which was up 125%, and aluminum, gaining 50%.

Precious metals reaped smaller gains but stole the limelight. Gold was up 24% for the year to $1,095.20 per troy ounce at Comex, the metals division of CME Group. It set 27 exchange records in the past 12 months amid waves of buying from funds and individual investors seeking a haven against inflation and a dropping dollar. But it is still 52% below its inflation-adjusted high of $2,300 dating from 1980. Silver surged 49% to $16.822 per troy ounce.

Platinum and palladium—primarily used by auto makers in catalytic converters—jumped 56% and 117%, respectively. Their gains came on the prospect that car makers will sharply increase their production in 2010, as U.S. auto sales improved in recent months, along with record sales in emerging markets such as China and Brazil.

Overall, base metals were fueled particularly by Chinese demand, which comprises 43% of the world's total and gained 27% from a year earlier, according to Deutsche Bank. Take China out of the equation, and global metals demand fell 9% in 2009.

"In 2009, the big surprise to me was the degree to which China has recovered," said Theresa Gusman, head of global commodities at DB Advisors, an asset-management subsidiary of Deutsche Bank.

The outlook for individual base metals will depend on how quickly producers can respond to rising demand.

Demand for base metals is likely to get further support as Western manufacturers start to rebuild their inventories next year. Many companies are running low on their stocks of raw materials, as warehouses are filled with unsold finished goods and credit remains tight, Ms. Gusman said.

For 2010, "robust economic growth in the emerging markets continues to be an ever greater pull on the world's resources," Goldman Sachs Group analysts wrote in a research note. Goldman expects a small deficit to emerge in the global copper market in 2010, mainly due to robust demand growth from power and construction sectors in China and India.

Copper remains "our most favored metal," as demand growth will outstrip supply, said Goldman analysts, who predict prices could gain 10% over the next six months.

However, they added, aluminum and zinc are likely to see a glut because of years of excessive capacity expansions, in spite of a budding recovery in the U.S. construction market. Goldman expects prices of aluminum and zinc to retreat 4% and 8%, respectively, over the next three months.

Gold was the hottest commodity in 2009. Central banks in India and Russia bought hundreds of tons of gold to diversify their foreign reserves, making central banks, as a whole, a net buyer of gold in 2009 after decades of selling.

Retail, or individual, investors around the world stocked up on gold bullion and flocked into gold-backed exchange-traded funds to preserve their net worth. SPDR Gold Shares, the world's biggest gold ETF, increased its gold holdings by 45%, to more than 1,133 metric tons, valued at $40.2 billion at current market prices.

The precious metal, which like other commodities is traded in dollar terms, reflected the decline in the U.S. currency earlier in the year. Gold prices retreated as the dollar rose late in the year. The gold frenzy also abated as some gold bulls decided to take profits, leading to a 10% retreat in prices in December. Silver lost 13% at the same time.

Many analysts remain bullish on gold in the near term. J.P. Morgan Chase analyst Michael Jansen expects the price of gold to reach $1,400 by mid-2010, as long as "the liquidity spigot remains open and the U.S. dollar remains under pressure." Goldman analysts set a six-month price target of $1,260 for gold, citing the favorable low interest-rate environment.

"Next year, we will see new highs in gold without any doubt," mainly driven by renewed pressure on the dollar, as central banks in Europe and China may raise interest rates sooner than the Federal Reserve in the U.S., said Philip Klapwijk, chairman of GFMS Ltd., a London-based metals consultancy. A double-digit jobless rate in the U.S. is likely to restrain the Fed, Mr. Klapwijk said.

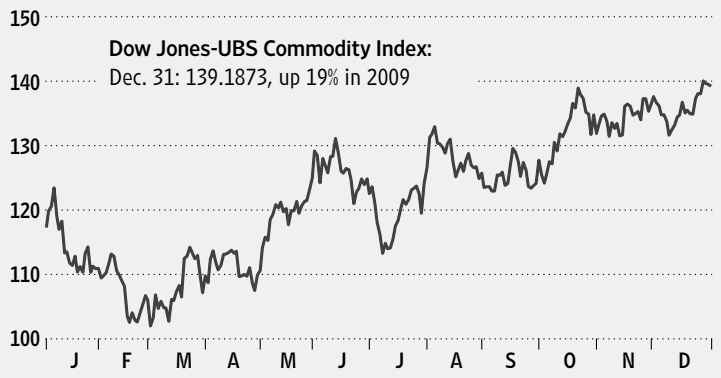
Still, the forces driving the gold rally are temporary, such as fiscal stimulus packages and central banks' easy-money policies.

In 2010, analysts say, the primary risk for gold is an earlier-than-expected increase in interest rates, especially in the U.S., if the economy strengthens. In early 1980s, a drastic tightening by the Fed sent gold into a decade-long bear market.

Mr. Jansen of J.P. Morgan expects gold to peak after the second quarter of 2010, as "reduced expectations around inflation, higher global interest rates and a mildly stronger" dollar will push gold prices lower.

A shining year

Metals led commodities markets higher, and gold ended 2009 just below $1,100.



Futures prices in 2009

Settlement prices on continuous front-month contracts

Sources: WSJ Market Data Group; Thomson Reuters Datastream; London Metal Exchange

On Wall Street: Lots of talk, little change despite shakeup by crisis

Continued from page 19

debt, some hedge funds, like **Paulson & Co.**, are boosting their leverage. With interest rates at superlow levels, other financial firms could be tempted to increase their own borrowings.

Indeed, even amid all the change, much more has stayed the same. Credit-rating companies, excoriated for placing top grades on what turned out to be toxic debt, still face the same potential conflicts of interest they always faced: These companies are paid by the very parties churning out the debt that is being rated.

At the same time, trading accounts for more than half the recent revenue of Wall Street firms, according to analysts. This suggests a continued dependence on volatile investment profits even as some firms say they are doing less trading for their own accounts, and more for clients, a potentially less risky endeavor.

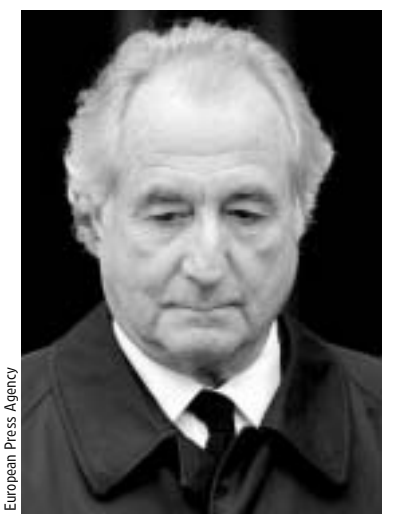
Meanwhile, there is little chatter about breaking up huge firms like **J.P. Morgan Chase** & Co. or Goldman Sachs, even though a clear lesson of 2008's collapse is that firms can grow so large that their troubles cause problems for the overall economy.

Just as important, there have been few big changes in markets for derivative securities, such as credit-default swaps. One proposal aired—to force trading onto public exchanges where it can be better monitored—has yet to be implemented, even though some argue that the inability to fully monitor exposure to these derivatives among companies like American International Group paved the way for financial meltdown in 2008.

Nor have rules been changed to increase the amount of capital that U.S. banks must hold as a percentage of assets, despite a range of recent proposals. Although many banks have boosted the capital they hold, without regulation the temptation will remain to eventually reduce these reserves.

"Until that's resolved, there's really no safety," says Westwood Capital's Mr. Alpert.

Meanwhile, there are new signs of potential financial bubbles, as investors take advantage of ultralow interest rates to borrow money and chase rising investments.



European Press Agency

Bernard Madoff

Stocks in some emerging-market nations, such as Argentina and Russia, were up as much as 100% in 2009, while some real-estate markets in Asia are surging anew.

Some bubble-watchers also point to gold prices, which surged to more than $1,217 an ounce in the autumn, from $883 at the start of 2009, and ended the year around $1,100.

"China is going through another boom in housing prices, as well as in stock prices," notes Robert Shiller, the Yale University economist who warned about the technology and housing bubbles.

At its heart, the economic downturn was caused by home buyers and financial firms piling on too much debt, and by borrowing at rates low enough to spark ever more speculation.

Today, debt is largely a government issue, as if the problem has been shifted from the private sector to the public one, like a game of kick-the-can.

Just as overleveraged consumers and home buyers vowed to trim debt down the line, federal and local officials provide assurances that they will eventually do something about their own borrowing, even as they tackle potentially costly new initiatives, including the military surge in Afghanistan, health-care reform, and initiatives to tackle climate change.

Likewise, the Federal Reserve is confident it can raise interest rates before new troubles brew.

But the U.S. central bank's track record in recent years suggests it will take its time. Scrutiny by Congress could make it more difficult to increase rates.

While some economists predict taxes will have to rise to chip away at some of the nation's debt, politicians of both parties have demonstrated little willingness to consider higher levies.

Just as home buyers figured rising real estate would let them handle their debt, some nations are counting on economic growth to improve the health of their balance sheets.

If there is a strong economic recovery, the Federal Reserve may be able to slowly raise rates—perhaps starting this year—without causing much damage.

Over the long haul, though, all the government borrowing likely will put pressure on interest rates and represent a headwind for markets and the global economy.

YEAR-END REVIEW: MARKETS & FINANCE

Art market suffers a blue period

Global recession keeps sales low, with some collectors seeking safety with the Old Masters; still buying in Asia

By Kelly Crow

The recession battered the art market for much of 2009, as prices for some of the world's top artists fell by a third and auction houses struggled to win over wary collectors.

Some buyers who fled when the art market crashed in late 2008 have stepped back in recently, and a few paid record prices for masterworks. But the marketplace, from Miami to Moscow to Mumbai, remains pockmarked with shuttered galleries, smaller auctions and scaled-down art fairs. In the U.S., many museums have postponed pricey exhibits.

Sotheby's said it auctioned off about $2.3 billion of fine and decorative art last year, down 53% from 2008. The 2009 total included $441 million in contemporary art, down 68% from 2008; $471 million in Impressionist and modern art, down 57%; and $190 million in jewelry, down 13%.

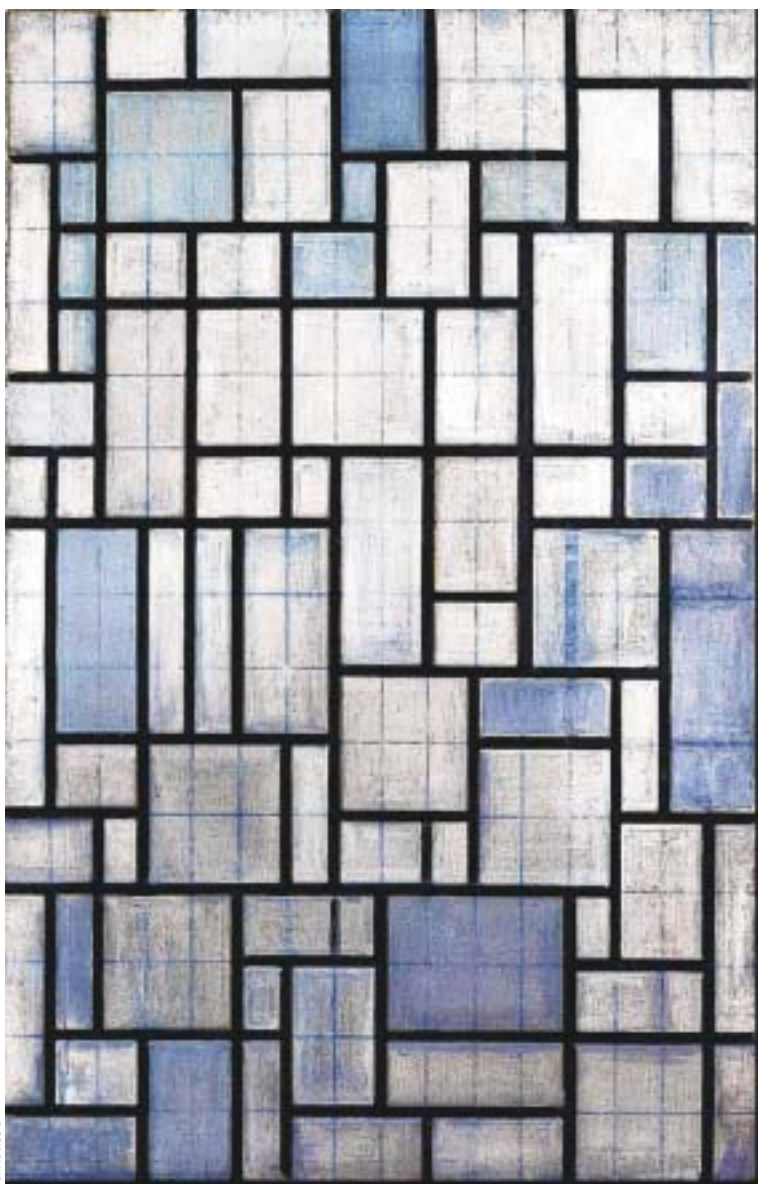
Rival **Christie's International** PLC said it auctioned at least $2.5 billion of art, down 46% from $4.6 billion in 2008. Closely held Christie's said it would release complete sales figures later this month.

In a year of uncertain art values, some collectors sought stability in the Old Masters. Raphael's black-chalk drawing of a serene figure, "Head of a Muse," sold at Christie's in London last month for $48 million—the highest price paid for a work of art at auction all year. In the same sale, Christie's sold an earthen-hued oil by Rembrandt, "Portrait of a Man With Arms Akimbo," for $33.2 million.

Sotheby's

Alberto Giacometti's "L'Homme Qui Chavire" sold for $19.3 million.

Sotheby's, meanwhile, sold a rare, early silkscreen by Pop master Andy Warhol, "200 One Dollar Bills," for $43.8 million in November, more than tripling its high estimate. Sotheby's also got $19.3 million for an Alberto Giacometti sculpture of a toppling man, "L'Homme Qui Chavire," and $18.8 million for an Edgar Degas bronze ballerina, "Petite danseuse de quatorze ans."



Christie's

Christie's sold Piet Mondrian's "Composition avec Grille 2" for $18.6 million.

The most striking sale of the year was the collection of the late fashion designer Yves Saint Laurent, nearly 700 objects—from Roman antiquities to Art Deco furniture to modern paintings—that were auctioned off by Christie's and the designer's partner Pierre Bergé for $443.1 million last spring.

Critics said the sale epitomized the excesses of the art world: Christie's printed $400 auction catalogs and conducted the sale in Paris's glass-domed exposition hall, the Grand Palais. But the spectacle helped draw thousands of bidders and fetch several record prices, including Henri Matisse's "Les coucous, tapis bleu et rose," which sold for $46 million; Constantin Brancusi's wooden totem, "Madame L.R. (Portrait de Mme. L.R.)," which fetched $37.7 million; and an Art Deco chair by Eileen Gray that sold for $28 million, 10 times its estimate.

The sale even sparked a diplomatic fracas after a Chinese antiques collector, Cai Mingchao, refused to pay the auction house $40.4 million he had bid for two bronze sculptures of animal heads, saying the pieces had been looted from China in the mid-1800s and should be returned to the government there free of charge. Mr. Bergé wound up keeping the bronzes, he said.

The Yves Saint Laurent sale couldn't fix the art market's woes, however. Throughout the spring, auction houses cut staff and costs and struggled to secure enough top material to entice potential bidders, said Sotheby's Chief Executive Bill Ruprecht. Sellers wouldn't part with their prized offerings "unless the gas was about to be turned off," Mr. Ruprecht said, compelling auction houses to sell privately or make do with slimmer pickings offered at a fraction of boom-era prices.

In May, Sotheby's sold a blue Easter egg sculpture by Jeff Koons, "Baroque Egg with Bow (Turquoise/Magenta)," that belonged to hedge-fund executive Daniel Loeb for $5.5 million. Sotheby's got nearly four times as much for a Koons sculpture from the same series two years earlier.

Fewer than 550 artworks crossed the million-dollar mark at auction last year, half as many as in 2008, according to Artprice, a Paris-based database that tracks global auction results.

Yet those lower art prices—coupled with inflation fears—were the same factors that helped drive some international collectors back into auction sales rooms and art fairs in the autumn, particularly buyers from Europe, Brazil and China who bought art as a hedge against possible inflation. Price levels have also begun to stabilize: Since September, Mr. Ruprecht said, 82% of Sotheby's artworks have sold for at least their minimum suggested prices.

So far, wine has been among the first collecting niches to regain its prerecession momentum, thanks largely to interest from China. Overall, Asian bidders took home a third of the wine sold last year at Sotheby's in New York, up from 4% four years ago.

Ed Dolman, Christie's chief executive, said he expects Asia to play an increasingly powerful role in the market's turnaround. After the last art crash in 1990, Mr. Dolman said, the "Japanese collectors disappeared and didn't come back for years, but the latest shock to our system hasn't really affected these newer Asian buyers." (Christie's switched its sales of contemporary Chinese art from New York and London to Hong Kong in early 2009.)

Christie's

Rembrandt's "Portrait of a Man With Arms Akimbo" sold for $33.2 million.

Although Americans sat on the sidelines for much of 2009, in recent weeks some contemporary collectors in the U.S. have rejoined the competition for top examples of artists' work.

American collectors and dealers won 82% of the offerings at Christie's Nov. 10 contemporary sale in New York, including pieces by Alexander Calder, Robert Motherwell and Donald Judd.

The recession has begun influencing the roster of sought-after artists. While art advisers expect prices to keep climbing for curatorial favorites like Louise Bourgeois and Cindy Sherman, whose prices didn't soar on speculation during the boom, they caution that the market may continue to test price levels for boom-era favorites like Takashi Murakami.

Christie's

Henri Matisse's "Les coucous, tapis bleu et rose" was sold as part of the collection of the late fashion designer Yves Saint Laurent.

YEAR-END REVIEW: MARKETS & FINANCE

U.S. resuscitates the credit markets

Work remains as far less financing is extended than before the crisis; returns to investors will be less than in '09

By Liz Rappaport

Help from the U.S. government gave credit markets a huge boost as most asset classes rebounded from sharp declines in 2008.

Prices of corporate bonds, mortgage-backed securities and leveraged loans soared back to levels unseen since before Lehman Brothers collapsed in September 2008, as investors gained confidence throughout the year that the worst of the credit crisis had passed.

Investors poured cash they had on the sidelines into riskier assets, causing a once-in-a-lifetime opportunity for returns of 50% or more in some categories, including "junk" bonds and leveraged loans.

The new year is unlikely to bring results of the same magnitude, as the government winds down its many support programs, pulls out of the mortgage-backed-securities market and codifies regulatory changes to the financial system.

"The past 12 months were off the charts," said Ashish Shah, co-head of credit strategy at Barclays Capital. "You clearly, mathematically, can't repeat that."

Most analysts say returns in the corporate-bond markets aren't likely to surpass 10% to 12% in 2010.

With the economy having averted what seemed a potential repeat of the Great Depression in 2008, most economists expect last year's strong economic rebound to level off to a sustainable, but not rapid, rate of growth.

Despite the rally in bond prices, there is still far less credit being extended to consumers and to many small or weaker firms. There also is less demand for credit, as households and companies repair their balance sheets, spend less and conserve cash amid 10% unemployment levels in the U.S. and still-low home prices.

After investors spent 2008 putting their money in the equivalent of a mattress, buying short-term Treasury securities or money-market funds, cash flows into riskier assets in 2009 were record-breaking. U.S. investors poured about $176 billion and $31 billion, respectively, into junk-bond and investment-grade-bond mutual funds in 2009, according to Lipper, a mutual-fund data provider.

"The year 2009 was the year of risk," said Don Galante, senior vice president for fixed income at MF Global. "Now we're back to a level of equilibrium."

Treasury bonds fell in price in 2009, sending their yields higher as investors sought out riskier assets with higher returns. Returns on Treasury notes and bonds fell 3% to 13% depending on their maturity, while the U.S. government sold a record-breaking $2.1 trillion of new debt into the marketplace to fund its programs and budget deficit.

U.S. high-yield and low-rated corporate junk bonds returned 57.5%, according to a Merrill Lynch index. As investors grew more comfortable with risk and bid up their prices, the gap between their yields and yields on risk-free Treasury bonds fell from more than 20 percentage points in December 2008 to 6.4 a year later. Bond yields fall as prices rise.

Bonds with the weakest, triple-C, credit ratings returned more than 100% for the year, but analysts expect this merely reflected a reversion to more-normal prices and that, in 2010, higher-rated junk bonds will do best.

As prices rose, the yields on junk bonds fell in half, from about 24% a year ago to about 10% now, according to Merrill Lynch. High-quality, investment-grade companies can borrow at about 5%.

Investment-grade bonds also logged impressive gains, returning about 20% in 2009. The average highly rated corporate bond now yields about two percentage points more than comparable Treasury bonds, compared with 6.25 points higher a year ago, according to Merrill Lynch.

As borrowing costs fell for most companies, many chief financial officers and treasurers moved to tap the bond markets.

Companies took the opportunity to replace short-term debt like commercial paper with longer-term borrowing. Since the financial crisis, companies also have been less willing to rely on bank loans and credit lines as safety nets.

Companies with high credit ratings issued a record amount of U.S.-dollar-denominated new debt in 2009—more than $1 trillion of dollar-denominated bonds, double the total in 2008, according to Dealogic. Among some of the largest deals were offerings from pharmaceutical companies **Pfizer** Inc. and **Roche Holding** Ltd.

Junk-rated companies sold about $140 billion of new debt, nearly three times the previous year's amount.

> 'The past 12 months were off the charts,' said Ashish Shah of Barclays Capital.

U.S. financial institutions, particularly those that faced high funding costs as investors feared bank failures, were able to borrow more than $300 billion in 2009 at extraordinarily low rates through the Temporary Liquidity Guarantee Program run by the Federal Deposit Insurance Corp. That program ended in October 2009.

Analysts expect corporations to pare back their borrowings in 2010, meaning new bond offerings may fall sharply. Barclays analysts expect high-grade debt issuance will fall nearly 40% this year, to about $500 billion.

The leveraged-loan market, which was the main engine of the buyout boom that preceded the credit crisis, also recovered. Leveraged-loan prices had fallen to about 65 cents on the dollar in 2008, and are now generally closer to face value, according to Standard & Poor's.

The year also brought a hint of riskier behavior that was reminiscent of the precrisis era. Although most analysts expect companies to be trimming their debt loads, some companies, such as **TransDigm Group** Inc., issued debt to pay a special cash dividend to shareholders, a move bondholders typically don't like because it siphons money away from the company's other obligations.

"You are getting some deals that are on the edge of representing value, or that are not driven by a company's need for liquidity," said Eric Felder, head of credit trading at Barclays Capital.

As corporate capital markets nursed themselves back to health, the securitization markets that fuel consumer finance remained relatively stagnant.

Many lenders borrowed money by selling securities under the Fed's Term Asset-Backed Securities Loan Facility, which supported investor demand for securities backed by consumer loans like car loans or credit-card debt. This helped drive up the prices of these securities, and their yields fell to just one to two percentage points over risk-free Treasury bonds.

But overall, these markets are still shrunken compared with precrisis levels. Demand for new credit is lower as consumers retrench and wrestle with a still-struggling housing market. Issuance of asset-backed debt last year was 23% lower than in 2008, according to Dealogic, and there have been nearly no new securities issued and backed by nonconforming mortgages.

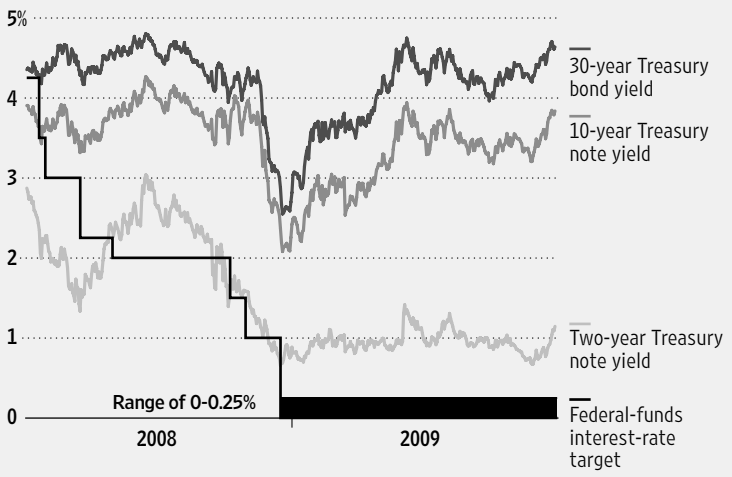
In the mortgage market, the Federal Reserve propped up prices for mortgage-backed securities, keeping rates down and sparking a wave of refinancing that helped stop the bleeding in the housing market. The Fed bought more than 70% of all the mortgage-backed securities backed by loans that conformed to **Fannie Mae** and **Freddie Mac** standards.

It is set to stop those purchases by the end of March 2010. How that program unwinds could be a sticking point for the credit markets in 2010, say analysts and investors. That said, the Fed and the government's support throughout 2009 suggests to many investors there is a stronger safety net under the markets than anyone realized one year ago.

A return to risk and reward

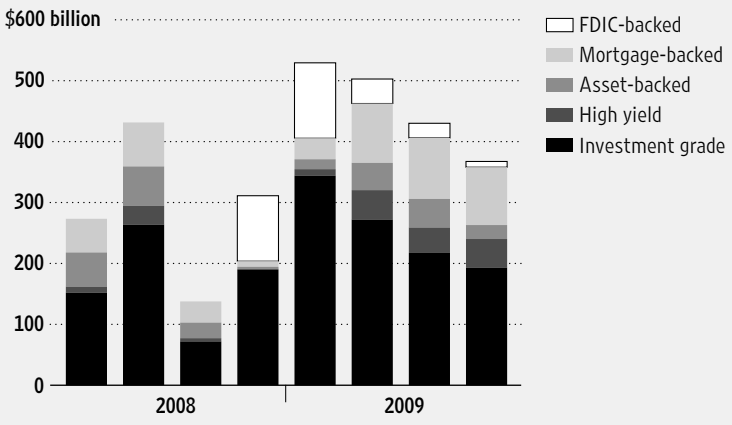
Interest rates and Treasury yields

The Federal Reserve kept the federal funds rate at nearly 0%, while the U.S. government sold a record-setting $2.1 trillion of debt to help fund a multitude of stimulus programs and bailouts.



Corporate borrowing

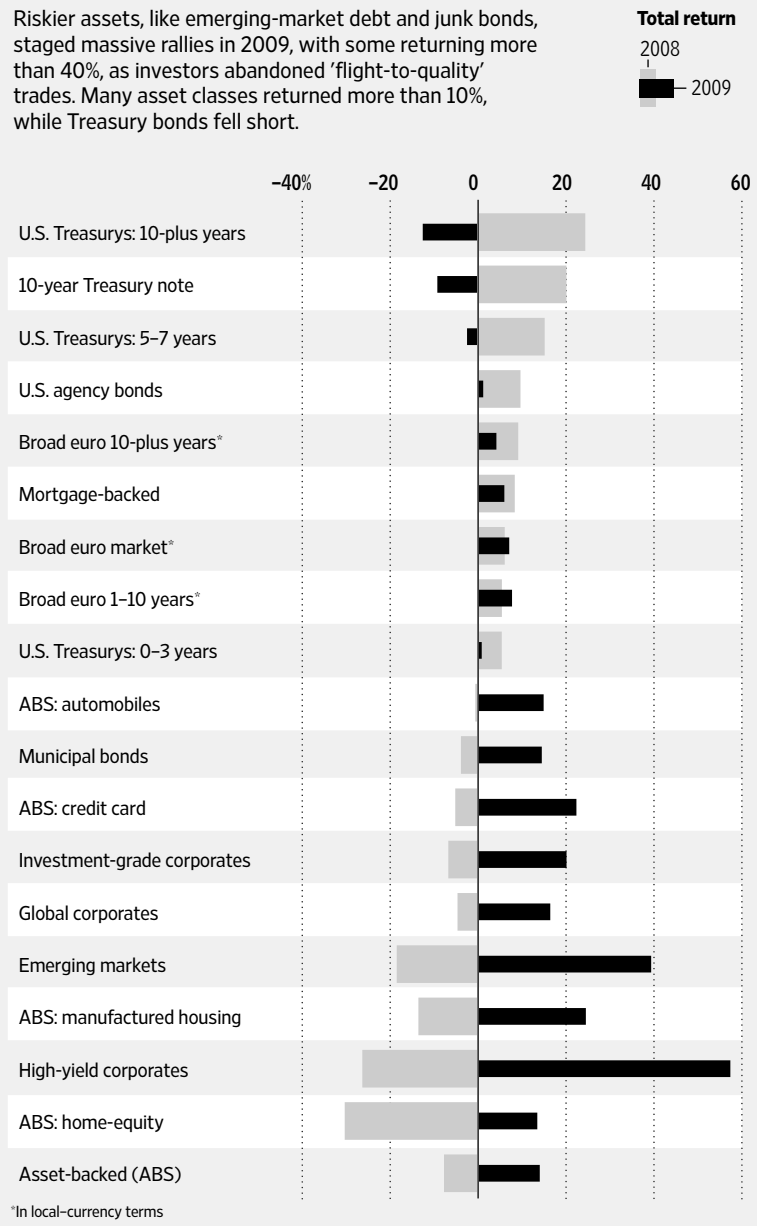
Corporate debt issuance exploded in 2009 as companies took advantage of low interest rates and government support to lock in low-cost funding. Banks and other financial institutions issued more than $300 billion of debt backed by the Federal Deposit Insurance Corp., which helped them meet their 2010 obligations.



Sources: WSJ Market Data Group (fed-fund target, bond returns); Ryan ALM (all Treasury yields and 10-year return); Dealogic (debt issuance); Bank of America Merrill Lynch (bond returns)

Bond returns

Riskier assets, like emerging-market debt and junk bonds, staged massive rallies in 2009, with some returning more than 40%, as investors abandoned 'flight-to-quality' trades. Many asset classes returned more than 10%, while Treasury bonds fell short.



*In local-currency terms

Note: The emerging-markets index tracks sovereign bonds from countries rated Triple-B or lower; asset-backed bond indexes are for fixed-rate bonds and mortgage-backed includes some hybrids

M&A: Get set for upturn

Financing is easier to get, rates are low and companies have cash

By Jeffrey McCracken And Dana Cimilluca

The year in deal making started strong and ended strong, with some of the biggest transactions announced in the opening and closing months of 2009.

Of the 10 largest global deals of the year, eight were announced in the first or fourth quarters. The middle six-plus months were a different story—some of the quietest, leanest stretches of the decade.

Global mergers-and-acquisition activity for 2009 was $2.3 trillion, down 22% from 2008, according to data analytics firm Dealogic. That was the lowest dollar value since $1.98 trillion in deals in 2004.

The drop would have been slightly greater in 2009 were it not for extraordinary government interventions across the world, comprising some $197.5 billion of total deal volume on such investments as U.S. insurer American International Group Inc. and the U.K.'s Royal Bank of Scotland Group PLC.

Globally, these government-backed acquisitions accounted for about 8.5% of all deal volume in 2009. Government-related deals totaled $186.8 billion in 2008, or about 6% of all transactions.

In the U.S., 2009 deal volume fell 10% to $766.8 billion, compared with $850.6 billion in 2008. The number of deals dropped 17%, to 7,140 deals.

In Europe, the drop was more precipitous. Deal volume fell 44%, to $691.4 billion in 2009, compared with $1.24 trillion in 2008.

The fourth quarter provided some measure of optimism for the lawyers, bankers and consultants who depend on active deal markets, and who profit whether the transactions succeed or not.

"We have healthy credit markets, healthy equity markets and the economy is stabilizing," said Gordon Dyal, the global head of M&A at Goldman Sachs Group Inc. "This should mean the M&A market in 2010, absent any shock, will be superior to 2009."

> Global mergers-and-acquisition activity for 2009 was $2.3 trillion, down 22% from 2008.

Globally, deal volume jumped 15% in the fourth quarter, to $684.9 billion, from $594.7 billion the same period a year ago, according to Dealogic. Activity in the fourth quarter globally was up 41% from the third quarter of 2009.

The fourth quarter was strong in the U.S., where announced deal volume more than doubled, to $214 billion, from $97 billion in the fourth quarter of 2008, a three-month stretch of global financial panic.

In Europe, the fourth-quarter picture wasn't as active, with deal volume, measured in dollars, falling 31% to $208.5 billion.

Many bankers, including Henrik Aslaksen, the co-head of global M&A at Deutsche Bank AG, predict that 2009 will prove to be the bottom of this cycle.

"Even if there's only moderate economic growth in 2010, I believe we'll see some significant deals like we've seen in the last quarter," Mr. Aslaksen said.

That is a reference to Exxon Mobil Corp.'s $31 billion purchase of XTO Energy Inc. in December and Warren Buffett's $27 billion purchase of railroad operator Burlington Northern Santa Fe Corp. in November.

Indeed, the past year had its share of megadeals, the biggest being Pfizer Inc.'s $68 billion acquisition of Wyeth, and Merck & Co.'s $41 billion purchase of Schering-Plough Corp.

What was missing during 2009, said bankers, were strategic deals in the $1 billion range, often midsize companies buying smaller rivals.

Most midsize companies, said bankers, were focused on conserving cash and cutting costs. That means many corporations are sitting on piles of money, which some will opt to use for acquisitions.

A number of conditions changed in the latter half of 2009 that augur well for deals. First, banks became more comfortable financing acquisitions. They also became more willing to lend at higher leverage ratios than in the previous year.

"Nine months ago, every company was focused inward and worried about shoring up balance sheets. Now, they have cash and stronger balance sheets," said Lee LeBrun, co-head of Americas mergers and acquisitions for UBS AG. "You couple that with interest rates at zero and it creates high-octane fuel for M&A growth."

For companies, "the question is no longer, 'What's our liquidity situation?' It's 'What makes strategic sense?' " said Wilhelm Schulz, the head of European M&A at Citigroup Inc. Some companies will have more difficulty accessing the financing markets than others, "but for the quality assets, you have as broad a menu of financing options as you've had in a while," he said.

The overall economy also began to show growth in the third quarter, which helped push stock prices higher, giving companies a fresh currency for acquisitions.

"Some of the deals late in the year, like the [leveraged buyouts], will give confidence to other companies to act. Or the Exxon deal with XTO could launch more oil and gas companies into pursuing natural-gas deals," said Jeffrey Kaplan, global head of mergers and acquisitions at Bank of America Merrill Lynch.

Dieter Turowski, Morgan Stanley's head of European M&A, predicted the dollar value of European deals could rise up to 30% in 2010.

"Europe got dragged into the recession a bit later and is now coming out a bit later," he said. "Many European CEOs didn't initially recognize a recession was to hit all corners of the globe. Some thought the credit crisis was a U.S. phenomenon."

Another factor to watch during 2010 will be the return of private-equity funds.

A number of big buyout deals were announced in late 2009, including TPG's $4 billion purchase of IMS Health Inc. and Blackstone Group LP's $2.7 billion purchase of Busch Entertainment, a unit of Anheuser-Busch InBev NV.

"I am a long way from thinking that 2010 activity will get to 2005 levels, but certainly there are more private-equity deals now than what I had been expecting at the beginning of the year," said Charles "Casey" Cogut, global head of the M&A practice at law firm Simpson Thacher & Bartlett LLP.

In rankings of global merger advisers, **Goldman Sachs Group** Inc. placed first, advising on deals valued at $644.9 billion. It maintained an edge over **Morgan Stanley**, which advised on deals valued at $616 billion.

J.P. Morgan Chase & Co. placed third globally after finishing first in 2008, advising on deals valued at $599.1 billion.

Rounding out the top 10 globally were **Citigroup**, **Bank of America** Corp.'s Bank of America Merrill Lynch, **Credit Suisse Group**, **UBS** AG, **Barclays** PLC's Barclays Capital, **Deutsche Bank** AG and **Lazard** Ltd.

Among law firms, New York's **Skadden, Arps, Slate, Meagher & Flom** LLP took the top spot, advising on global deals valued at $373.5 billion.

In second was Australian law firm **Allens Arthur Robinson**, which advised on $248.6 billion in deals. Close behind was **Sullivan & Cromwell** LLP, which led the rankings in 2008.

Rounding out the top five are the U.K.'s **Freshfields Bruckhaus Deringer** and New York's **Simpson Thacher & Bartlett**.

Mergers Around the World

Merger activity was down in 2009 compared with the previous year.

Note: Excludes spin-offs, buybacks; includes target debt

Source: Dealogic

Hedge funds look poised to expand

By Jenny Strasburg And Gregory Zuckerman

Hedge funds started the year off balance and spent much of it trying to regain their footing. The result going into 2010 is a global industry still well off its peak size, but growing once again as investors get back to writing checks and a performance comeback boosts fund assets.

Through November, the most recent data available, hedge funds on average returned 19% in 2009, according to Hedge Fund Research, which tracks performance. That compares with a gain of about 18% for the Dow Jones Industrial Average over the same period, and a 21% rise in the Standard & Poor's 500-stock index.

In 2008, as financial markets tumbled during the global crisis, the average hedge fund world-wide lost 19% on investments. Facing sagging asset values and hesitant to sell into a weak market, hundreds of managers in 2008 and 2009 put up "gates," or restrictions on clients' ability to withdraw money.

The moves sparked an outcry among investors, including influential pension funds and endowments. Investors accused some managers of halting redemptions to keep their funds—and lucrative fee streams—from shrinking. Gates and suspensions of withdrawals remain an issue for investors considering fresh allocations to start-ups or established funds.

Investors opting to put money into funds focused on illiquid, or hard-to-sell, assets, are more accepting of withdrawal restrictions as a "necessary evil" to ensure that outgoing clients and those staying put are treated fairly, but investors don't want to be surprised, says Udi Grofman, a hedge-fund lawyer in New York with Schulte Roth & Zabel LLP. Deep-pocketed investors are driving managers to be clear about whether they are investing in liquid or illiquid assets, and to stick with their strategies so investors know what to expect if they seek to exit.

As they push new cash into managers' hands, investors are tending to favor midsize and bigger funds with track records. "Big beneficiaries from the crisis are multibillion-dollar funds, but not necessarily the biggest ones, that finished 2008 relatively intact," Mr. Grofman says.

As hedge-fund managers generally entered 2009 cautious about the markets, many were holding 50% to 60% of their portfolios in cash, according to data compiled by Mary Ann Bartels, a Merrill Lynch analyst who tracks hedge-fund holdings and performance.

As the economy and markets stabilized, hedge funds jumped back in, buying both stocks and bonds and playing a big part in the resurgence of those markets. Through most of the fall, hedge funds were "fully invested" in the market, Ms. Bartels says.

Wealthy investors and endowments continued to be wary about hedge funds, and many didn't have new cash to invest or an inclination to wager on funds in 2009. But pension funds and foundations started to warm to hedge funds during the summer, setting the industry up for growth in 2010.

Investment gains and inflows helped boost industrywide assets to about $1.5 trillion in the third quarter, after assets had plunged more than $500 billion from their year-end 2007 peak of almost $1.9 trillion, according to Hedge Fund Research.

Just over $1 billion of net investments moved to hedge funds in the third quarter, according to the research firm, the first quarter of positive inflows since the second quarter of 2008.

"We see the early signs of a turnaround" in hedge-fund popularity, says Huw van Steenis, an analyst at Morgan Stanley.

For 2010, some hedge funds say they are concerned about certain areas of the market, such as small banks and financial firms, and are betting on difficult times ahead. Many smaller financial firms are dealing with growing losses from commercial real estate and haven't seen the recovery that larger banks experienced in 2009.

A number of "small, low-priced banks...will ultimately be seized" by the Federal Deposit Insurance Corp., predicts B. Bradley Golding, a managing director at Christofferson, Robb & Co. He helps oversee a fund with less than $100 million in assets that scored gains of 109% in 2008 and was up more than 5% in 2009, through November. The fund benefited in 2008 from betting against stocks through short sales as the market fell.

In 2009, with the market sharply up, such bets haven't paid off as handsomely. However, Mr. Golding still sees plenty of opportunities to bet against sectors such as financials. "The majority of these troubled banks have no way to raise capital and thus no way to survive."

A number of managers, including big names such as John Paulson and David Einhorn, are buying up gold investments, helping fuel a widely watched run-up in the value of the precious metal.

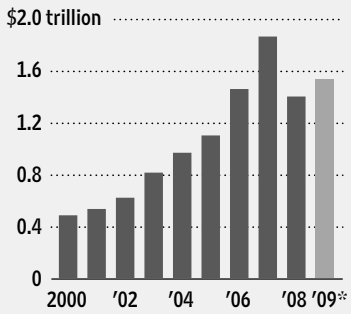
There are other challenges in 2010. An expanding inquiry into suspected insider trading has traders and their bosses on edge—and is causing some investors to question whether certain stock-picking strategies will become less profitable.

Lawyers expect legislation that would require funds above a certain asset size to register with the Securities and Exchange Commission. Some lawmakers also are pushing for increased tax rates for hedge-fund managers.

Many funds earned enough money in 2009 to make up for 2008 losses. "The hiring picture looks strong in early 2010," says John Pierson, who runs New York hedge-fund recruiting firm 10X Partners LLC.

Gaining again

Hedge funds' assets under management



*Through third quarter

Source: Hedge Fund Research

barcap.com

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EQUITY

Ford $2.9 billion Senior Convertible Notes Joint Bookrunner November 2009	SANDS CHINA LTD. $2.5 billion Initial Public Offering Joint Bookrunner November 2009	AVAGO TECHNOLOGIES $745 million Initial Public Offering Joint Quarterback and Joint Bookrunner August 2009
BRITISH AIRWAYS £350 million Senior Convertible Bonds Joint Bookrunner July 2009	SMFG Sumitomo Mitsui Financial Group ¥923.1 billion Follow-On Common Equity Offering Joint Bookrunner June 2009	Anadarko $1.4 billion Follow-On Common Equity Offering Joint Bookrunner May 2009
AngloGold Ashanti $733 million Senior Convertible Bonds Joint Bookrunner May 2009	ALCOA $906 million Common Equity Offering $575 million Senior Convertible Notes Joint Bookrunner March 2009	gasNatural €3.5 billion 1 for 1 Rights Issue Joint Global Coordinator and Joint Bookrunner March 2009

INVESTMENT GRADE

CVS CAREMARK $1.5 billion $1.0 billion Senior Notes $479 million Pass Through Certificates Joint Bookrunner and Sole Bookrunner 2009	Pfizer $13.5 billion €5.9 billion £1.5 billion Senior Notes $10.3 billion Consent Solicitation Joint Bookrunner 2009	CISCO $5.0 billion Senior Notes Joint Bookrunner November 2009
WAL★MART €1.0 billion Senior Notes $1.0 billion Senior Notes Joint Bookrunner September and May 2009	FordCredit $1.9 billion Auto Loan ABS $834 million Auto Lease ABS TALF Eligible Joint Bookrunner June 2009	NOKIA $1.5 billion Senior Notes Joint Bookrunner May 2009
Shell €5.0 billion Senior Notes $2.5 billion Senior Notes Joint Bookrunner May and March 2009	verizon wireless $4.3 billion Senior Notes $4.0 billion Senior Notes Joint Bookrunner May and January 2009	at&t £1.9 billion Senior Notes Joint Bookrunner April 2009

LEVERAGED FINANCE

CROWN CASTLE INTERNATIONAL $500 million Senior Notes Joint Bookrunner October 2009	NOVA Chemicals $700 million Senior Unsecured Notes Joint Bookrunner October 2009	Trico Shipping AS $400 million Senior Secured Notes Sole Manager October 2009
WC Warner Chilcott $3.2 billion Senior Secured Credit Facility Joint Bookrunner October 2009	DELTA $750 million 1st Lien Secured Notes $600 million 2nd Lien Secured Notes Joint Bookrunner September 2009	CIT $3.0 billion Senior Secured Term Loan Sole Bookrunner July 2009
FIAT GROUP €1.3 billion Senior GMTN Notes Joint Bookrunner July 2009	Smithfield $625 million Senior Secured Notes $1.0 billion Asset Based Revolving Credit Facility Joint Bookrunner June 2009	FordCredit $1.1 billion Senior Notes Joint Bookrunner May 2009

MERGERS AND ACQUISITIONS

Abbott A Promise for Life has agreed to acquire the pharmaceutical division of SOLVAY €4.5 billion Transaction Value Financial Advisor Pending	CISCO has agreed to acquire STARENT NETWORKS $2.4 billion Transaction Value Financial Advisor Pending	EnCana has agreed to a corporate restructuring and spin-out of cenovus ENERGY $23.1 billion Transaction Value Strategic Advisor Pending
verizon has agreed to divest rural access lines to frontier Communications $8.6 billion Transaction Value Financial Advisor Pending	XTO has agreed to be acquired by ExxonMobil $41.0 billion Transaction Value Financial Advisor Pending	AB InBev has divested its Central European operations to CVC Capital Partners up to $3.0 billion Transaction Value Financial Advisor December 2009
Enterprise Products Partners L.P. has acquired TEPPCO $5.9 billion Transaction Value Financial Advisor October 2009	Metavante has been acquired by FIS Fidelity National Information Services $4.4 billion Transaction Value Financial Advisor October 2009	Pfizer has acquired Wyeth $64.5 billion Transaction Value Financial Advisor October 2009

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MARKETS

U.S. data for this week offers uncertain compass

By Mark Gongloff

The first week of the new year is loaded with U.S. economic data that could move financial markets.

But investors seeking clarity about the strength of the recovery will have to wait several more weeks.

AHEAD OF THE TAPE

The econorama kicks off Monday, when the Institute for Supply Management reports manufacturing indexes for December.

Economists estimate that the ISM's index of overall factory activity rose to 54 from 53.6 in November.

Any reading above 50 indicates sector growth, and it has topped that level for four straight months.

Manufacturing is a small part of the economy but is sensitive to economic swings.

Its strong revival probably has done the most to raise hopes for a sustainable broader recovery.

Rebounding auto sales, thanks to the cash-for-clunkers program, helped revive factories by encouraging auto makers to boost production.

Auto makers report December sales on Tuesday.

Friday brings the biggest report, December employment.

Economists estimate that payrolls were unchanged and that unemployment stayed at 10%.

Major deviations from those forecasts could have an outsize influence on stock-market psychology, at least briefly.

After all, the market staged its 59% rally from its March 9 low based at least in part on optimism that the economy was pulling out of the recession.

Many investors appear to be expecting banner numbers from the non-farm payrolls, especially after data on Thursday showed much lower-than-expected jobless claims. The total fell to the lowest in 18 months.

But this week's data can't really be seen as a barometer for the economy's strength for the rest of the year.

It isn't yet clear, for example, whether manufacturing's rebound will extend much beyond vehicles, which have contributed an unusually large share of production since June, according to Goldman Sachs economist Ed McKelvey.

Other finished goods have made up less of the production mix than usual during that time, suggesting demand is weak for products that aren't subsidized by the government.

Meanwhile, employers have nearly exhausted their supply of workers to fire.

But those employers don't yet feel a need to add more, given the uncertainties about demand.

Big downside surprises in data this week won't necessarily spell economic doom, but big upside surprises shouldn't be overinterpreted, either.

U.K. university eyes bond sale after 800 years

By Elizabeth Pfeuti

Britain's Cambridge University is considering issuing bonds for the first time in its 800-year history, following a trend set by U.S. Ivy League institutions.

The university needs to borrow £200 million ($320 million) to £300 million to fund a number of property and infrastructure projects in its home city, according to university documents.

The Board of Scrutiny, set up to ensure the university's efficient running, said in a report at the end of November that it "strongly recommends that the University's Finance Committee proceed as soon as possible with a long-dated issuance in the fixed-interest markets."

"We usually raise money through benefactors, but this time we need a significant sum so are turning to other methods," said Andrew Reid, Cambridge University's director of finance. "We are considering both issuing bonds and borrowing from banks, and should make a final decision by mid-2010."

Mr. Reid said the university needs to finance two main projects, a new development in northwest Cambridge and the redevelopment of two existing city-center sites, a new museum site on Downing Street and an old press site near Silver Street.

"I would expect Cambridge to come to the bond market rather than seek bank financing for the development of northwest Cambridge," said Toby Nangle, a Cambridge alumnus and director of the multi-asset and fixed-income teams at Barings Asset Management. "It is still early days, but my understanding is that this project is designed to enhance the university's attractions, provide postgraduate accommodation, and increase its financial independence."

Mr. Nangle has no direct involvement in the potential bond issue, but Barings Asset Management could become an investor should Cambridge issue the bonds.

U.S. schools including Harvard University and Princeton University have issued bonds with durations of up to 30 years, while Yale and Stanford have five-year bonds on issue.

Universities usually earn an AA or AAA rating from agencies, Mr. Nangle said.

FUND SCORECARD

Europe Small-Cap Equity

Funds that invest primarily in the equities of small-cap European companies. At least 75% of total assets are invested in equities. Ranked on % total return (dividends reinvested) in U.S. dollars for one year ending December 31, 2009

Leading 10 Performers

FUND RATING *	FUND NAME	FUND MGM'T CO.	CURR.	LEGAL BASE	% Return in $US ** YTD	1-YR	2-YR	5-YR
5	**Bestinver Internacional FI**	Bestinver Gestión	EUR	Spain	**78.02**	76.50	-3.33	9.45
3	**Vontobel Europ Mid Sm Cap Eq A**	Vontobel Management S.A.	EUR	Luxembrg	**76.63**	75.30	-15.26	7.10
3	**UBS (Lux) ES Small Caps Europe EUR P Acc**	UBS (Lux) Equity Sicav	EUR	Luxembrg	**75.00**	72.67	-15.38	6.80
3	**Amonis Eq Europe Small Cap**	Amonis	EUR	Belgium	**72.35**	71.32	-11.56	6.55
4	**Gartmore SICAV Pan Euro Sm Comp A**	Gartmore SICAV	EUR	Luxembrg	**72.53**	70.76	-8.72	7.25
5	**Squad Capital Growth**	Axxion S. A.	EUR	Luxembrg	**71.01**	69.35	-4.95	NS
4	**BPER Intl SICAV European Equities SC**	BPER International Sicav	EUR	Luxembrg	**70.10**	67.76	-15.10	7.61
3	**FF - European Smaller Cos A Acc Euro**	Fidelity (FIL (Luxembourg) S.A.)	EUR	Luxembrg	**66.85**	66.78	-15.97	5.43
3	**ING Europe Small Caps**	ING Investment Management Europe	EUR	Nethrlnds	**66.88**	66.43	-17.75	5.61
4	**Insight Inv European Small Cap A GBP**	Insight Investment Funds Management Ltd	GBP	United Kingdom	**68.20**	66.12	-11.49	9.10

NOTE: Changes in currency rates will affect performance and rankings.
KEY: ** 2YR and 5YR performance is annualized
NA-not available due to incomplete data;
NS-fund not in existence for entire period

Source: Morningstar, Ltd
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FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	—%RETURN— YTD	12-MO	2-YR
AHW CAPITAL MANAGEMENT									
Tel (+49) 1805 - 23 82 82									
www.ahw-capital.com									
AHW Top-Div.Int.	GL	EQ	LUX	12/31	EUR	54.63	21.2	21.2	-28.4
ALLIANCE BERNSTEIN									
www.alliancebernstein.com/investments Tel. +800 2263 8637									
Am Eq Blend A	OT	OT	LUX	12/30	USD	10.46	27.4	29.0	-15.3
Am Eq Blend B	US	EQ	LUX	12/30	USD	9.83	26.2	27.8	-16.1
Am Growth A	US	EQ	LUX	12/30	USD	31.47	37.4	38.9	-6.5
Am Growth AX	US	EQ	LUX	12/30	USD	33.97	38.2	39.7	-5.9
Am Growth B	US	EQ	LUX	12/30	USD	26.46	36.0	37.5	-7.4
Am Growth C	US	EQ	LUX	12/30	USD	28.47	36.8	38.2	-6.9
Am Growth I	US	EQ	LUX	12/30	USD	34.88	38.5	40.0	-5.7
Am Income A	US	BD	LUX	12/30	USD	8.44	24.6	25.3	5.4
Am Income A2	US	BD	LUX	12/30	USD	19.05	25.2	25.2	5.4
Am Income A2	OT	OT	NA	12/30	HKD	147.73	NS	NS	NS
Am Income AT	OT	OT	NA	12/30	HKD	65.61	NS	NS	NS
Am Income AT	US	BD	LUX	12/30	USD	8.46	25.2	25.2	5.4
Am Income B	US	BD	LUX	12/30	USD	8.44	23.7	24.3	4.6
Am Income B2	US	BD	LUX	12/30	USD	16.42	24.3	24.3	4.7
Am Income B2	OT	OT	NA	12/30	HKD	127.34	NS	NS	NS
Am Income BT	OT	OT	NA	12/30	HKD	65.92	NS	NS	NS
Am Income BT	US	BD	LUX	12/30	USD	8.50	24.4	24.3	4.7
Am Income C	US	BD	LUX	12/30	USD	8.44	24.0	24.6	4.9
Am Income C2	US	BD	LUX	12/30	USD	24.42	24.7	24.6	5.0
Am Income I	US	BD	LUX	12/30	USD	8.44	25.3	26.1	6.1
Am Value A	US	EQ	LUX	12/30	USD	8.62	19.6	20.7	-14.2
Am Value B	US	EQ	LUX	12/30	USD	7.93	18.2	19.6	-15.1
Am Value C	US	EQ	LUX	12/30	USD	8.62	18.9	20.2	-14.6
Am Value I	US	EQ	LUX	12/30	USD	9.27	20.4	21.7	-13.6
Emg Mkts Debt A	GL	BD	LUX	12/30	USD	15.55	43.4	44.2	7.6
Emg Mkts Debt A2	GL	BD	LUX	12/30	USD	20.09	44.3	44.2	7.6
Emg Mkts Debt AT	GL	BD	LUX	12/30	USD	15.67	44.4	44.3	7.6
Emg Mkts Debt B	GL	BD	LUX	12/30	USD	15.55	42.2	42.8	6.5
Emg Mkts Debt B2	GL	BD	LUX	12/30	USD	19.35	42.9	42.8	6.6
Emg Mkts Debt BT	GL	BD	LUX	12/30	USD	15.65	42.9	42.8	6.6
Emg Mkts Debt C	GL	BD	LUX	12/30	USD	15.55	42.8	43.6	7.1
Emg Mkts Debt C2	GL	BD	LUX	12/30	USD	19.75	43.7	43.5	7.2
Emg Mkts Debt I	GL	BD	LUX	12/30	USD	15.55	44.1	44.9	8.2
Emg Mkts Growth A	GL	EQ	LUX	12/30	USD	34.44	71.9	73.0	-13.9
Emg Mkts Growth B	GL	EQ	LUX	12/30	USD	29.19	70.2	71.2	-14.7
Emg Mkts Growth C	GL	EQ	LUX	12/30	USD	29.85	71.1	72.1	-14.3
Emg Mkts Growth I	GL	EQ	LUX	12/30	USD	38.18	73.2	74.3	-13.2
Eur Growth A	OT	OT	LUX	12/30	USD	10.03	25.7	27.5	-18.0
Eur Growth A	OT	OT	LUX	12/30	EUR	7.00	25.7	27.5	-18.0
Eur Growth B	OT	OT	LUX	12/30	EUR	6.30	24.5	26.3	-18.8
Eur Growth B	OT	OT	LUX	12/30	USD	9.03	24.5	26.3	-18.8
Eur Growth C	EU	EQ	LUX	12/30	EUR	5.31	25.2	27.0	-18.3
Eur Growth I	OT	OT	LUX	12/30	USD	10.95	26.7	28.6	-17.3
Eur Growth I	OT	OT	LUX	12/30	EUR	7.64	26.7	28.6	-17.3
Eur Income A	OT	OT	LUX	12/30	EUR	6.60	38.9	40.0	3.8
Eur Income A	OT	OT	LUX	12/30	USD	9.46	38.9	40.0	3.8
Eur Income A2	OT	OT	LUX	12/30	EUR	12.87	39.7	40.0	3.9
Eur Income A2	OT	OT	LUX	12/30	USD	18.45	39.7	40.0	3.9
Eur Income AT	EU	BD	LUX	12/30	EUR	6.62	39.6	39.9	3.8
Eur Income B	OT	OT	LUX	12/30	EUR	6.60	38.1	39.1	3.1
Eur Income B	OT	OT	LUX	12/30	USD	9.46	38.1	39.1	3.1
Eur Income B2	OT	OT	LUX	12/30	EUR	11.97	38.7	39.0	3.1
Eur Income B2	OT	OT	LUX	12/30	USD	17.16	38.7	39.0	3.1
Eur Income BT	EU	BD	LUX	12/30	EUR	6.62	38.8	39.0	3.1
Eur Income C	OT	OT	LUX	12/30	EUR	6.60	38.4	39.4	3.4
Eur Income C	OT	OT	LUX	12/30	USD	9.46	38.4	39.4	3.4
Eur Income C2	OT	OT	LUX	12/30	EUR	12.83	39.2	39.5	3.4
Eur Income C2	OT	OT	LUX	12/30	USD	18.39	39.2	39.5	3.4
Eur Income I	OT	OT	LUX	12/30	EUR	6.60	39.5	40.7	4.4
Eur Income I	OT	OT	LUX	12/30	USD	9.46	39.5	40.7	4.4
Eur Strat Value A	OT	OT	LUX	12/30	EUR	8.51	22.3	24.4	-21.9
Eur Strat Value A	OT	OT	LUX	12/30	USD	12.20	22.3	24.4	-21.9
Eur Strat Value I	OT	OT	LUX	12/30	EUR	8.71	23.2	25.5	-21.2
Eur Strat Value I	OT	OT	LUX	12/30	USD	12.49	23.2	25.5	-21.2
Eur Value A	OT	OT	LUX	12/30	EUR	9.17	26.0	27.9	-18.7
Eur Value A	OT	OT	LUX	12/30	USD	13.15	26.0	27.9	-18.7
Eur Value B	OT	OT	LUX	12/30	USD	12.10	24.7	26.7	-19.5
Eur Value B	OT	OT	LUX	12/30	EUR	8.44	24.7	26.7	-19.5
Eur Value C	OT	OT	LUX	12/30	USD	12.72	25.3	27.3	-19.1
Eur Value C	OT	OT	LUX	12/30	EUR	8.87	25.3	27.3	-19.1
Eur Value I	OT	OT	LUX	12/30	USD	15.20	26.9	29.1	-18.0
Eur Value I	OT	OT	LUX	12/30	EUR	10.60	26.9	29.1	-18.0
Gl Balanced (Euro) A	OT	OT	LUX	12/30	USD	16.50	21.4	22.4	-11.2
Gl Balanced (Euro) B	OT	OT	LUX	12/30	USD	16.07	20.2	21.2	-12.1
Gl Balanced (Euro) C	OT	OT	LUX	12/30	USD	16.37	21.1	22.0	-11.5
Gl Balanced (Euro) I	OT	OT	LUX	12/30	USD	16.80	NS	NS	NS
Gl Balanced A	US	BA	LUX	12/30	USD	16.54	24.5	25.1	-10.8
Gl Balanced B	US	BA	LUX	12/30	USD	15.73	23.3	23.9	-11.6
Gl Balanced C	OT	OT	LUX	12/30	USD	16.29	24.1	24.6	-11.1
Gl Balanced C	OT	OT	LUX	12/30	EUR	11.36	24.1	24.6	-11.1
Gl Balanced I	US	BA	LUX	12/30	USD	17.15	25.3	25.9	-10.1
Gl Bond A	US	BD	LUX	12/30	USD	9.25	12.4	12.8	4.5
Gl Bond A2	US	BD	LUX	12/30	USD	16.02	12.7	12.7	4.5
Gl Bond A2	OT	OT	NA	12/30	HKD	124.24	12.7	12.7	4.5
Gl Bond AT	OT	OT	LUX	12/30	HKD	71.81	12.8	12.7	4.5
Gl Bond AT	US	BD	LUX	12/30	USD	9.26	12.8	12.7	4.5
Gl Bond B	US	BD	LUX	12/30	USD	9.25	11.4	11.7	3.5
Gl Bond B2	US	BD	LUX	12/30	USD	14.03	11.6	11.5	3.4
Gl Bond B2	OT	OT	NA	12/30	HKD	108.80	11.6	11.5	3.4
Gl Bond BT	OT	OT	LUX	12/30	HKD	72.04	11.6	11.6	3.5
Gl Bond BT	US	BD	LUX	12/30	USD	9.29	11.6	11.6	3.5
Gl Bond C	US	BD	LUX	12/30	USD	9.25	11.9	12.3	4.0
Gl Bond C2	US	BD	LUX	12/30	USD	13.90	12.2	12.2	4.0
Gl Bond I	US	BD	LUX	12/30	USD	9.25	12.9	13.4	5.1
Gl Conservative A	US	BA	LUX	12/30	USD	14.90	15.6	16.0	-4.4
Gl Conservative A2	US	BA	LUX	12/30	USD	16.97	16.4	16.7	-4.1
Gl Conservative B	US	BA	LUX	12/30	USD	14.90	14.9	15.2	-5.2
Gl Conservative B2	US	BA	LUX	12/30	USD	16.12	15.2	15.6	-5.0
Gl Conservative C	US	BA	LUX	12/30	USD	14.89	15.3	15.6	-4.8
Gl Conservative C2	US	BA	LUX	12/30	USD	16.60	15.9	16.2	-4.5
Gl Conservative I	US	BA	LUX	12/30	USD	14.97	16.5	16.8	-3.7
Gl Eq Blend A	GL	EQ	LUX	12/30	USD	11.72	31.1	32.3	-21.2
Gl Eq Blend B	GL	EQ	LUX	12/30	USD	11.00	29.9	31.0	-22.0
Gl Eq Blend C	GL	EQ	LUX	12/30	USD	11.52	30.6	31.7	-21.6
Gl Eq Blend I	GL	EQ	LUX	12/30	USD	12.37	32.3	33.4	-20.6
Gl Growth A	GL	EQ	LUX	12/30	USD	42.14	30.7	31.9	-22.2
Gl Growth B	GL	EQ	LUX	12/30	USD	35.18	29.4	30.6	-22.9
Gl Growth C	GL	EQ	LUX	12/30	USD	40.44	30.1	31.3	-22.5
Gl Growth I	GL	EQ	LUX	12/30	USD	46.79	31.7	33.0	-21.5
Gl High Yield A	US	BD	LUX	12/30	USD	4.33	59.5	61.1	4.3
Gl High Yield A2	US	BD	LUX	12/30	USD	9.25	60.6	60.9	4.2
Gl High Yield A2	OT	OT	NA	12/30	HKD	71.73	60.6	60.9	4.2
Gl High Yield AT	OT	OT	NA	12/30	HKD	33.42	60.9	60.9	4.2
Gl High Yield AT	US	BD	LUX	12/30	USD	4.31	60.9	60.9	4.2
Gl High Yield B	US	BD	LUX	12/30	USD	4.33	57.6	59.0	3.0
Gl High Yield B2	US	BD	LUX	12/30	USD	14.87	59.0	59.2	3.2
Gl High Yield B2	OT	OT	NA	12/30	HKD	115.32	59.0	59.2	3.2
Gl High Yield BT	OT	OT	NA	12/30	HKD	33.97	58.9	59.2	3.1
Gl High Yield BT	US	BD	LUX	12/30	USD	4.38	58.9	59.2	3.1
Gl High Yield C	US	BD	LUX	12/30	USD	4.33	58.7	60.2	3.7
Gl High Yield C2	US	BD	LUX	12/30	USD	13.71	60.0	60.0	3.7
Gl High Yield I	US	BD	LUX	12/30	USD	4.33	60.6	62.3	5.0
Gl Thematic Res. A	OT	OT	LUX	12/30	USD	14.80	69.1	68.8	-3.9
Gl Thematic Res. B	OT	OT	LUX	12/30	USD	12.95	67.5	67.1	-4.8
Gl Thematic Res. I	OT	OT	LUX	12/30	USD	16.50	70.5	70.1	-3.1
Gl Value A	GL	EQ	LUX	12/30	USD	11.20	31.9	32.9	-20.3
Gl Value B	GL	EQ	LUX	12/30	USD	10.29	30.6	31.4	-21.1
Gl Value C	GL	EQ	LUX	12/30	USD	10.88	31.2	32.2	-20.7
Gl Value I	GL	EQ	LUX	12/30	USD	11.91	32.9	33.8	-19.7
Greater China A	AS	EQ	LUX	12/30	USD	39.72	54.9	55.8	-17.0
Greater China B	AS	EQ	LUX	12/30	USD	35.15	53.3	54.2	-17.9
Greater China C	AS	EQ	LUX	12/30	USD	39.22	54.2	55.1	-17.4
India Growth A	OT	OT	LUX	12/30	USD	125.40	NS	NS	NS
India Growth AX	OT	OT	LUX	12/30	USD	109.62	89.8	89.8	-10.6
India Growth B	OT	OT	LUX	12/30	USD	131.37	NS	NS	NS
India Growth BX	OT	OT	LUX	12/30	USD	93.70	87.9	87.9	-11.5
India Growth I	EA	EQ	LUX	12/30	USD	113.59	90.6	90.6	-10.2
Int'l Health Care A	OT	EQ	LUX	12/30	USD	138.55	18.0	18.7	-8.4
Int'l Health Care B	OT	EQ	LUX	12/30	USD	116.87	16.8	17.5	-9.4
Int'l Health Care C	OT	EQ	LUX	12/30	USD	132.79	17.5	18.2	-8.9
Int'l Health Care I	OT	EQ	LUX	12/30	USD	151.37	18.9	19.7	-7.7
Int'l Technology A	OT	EQ	LUX	12/30	USD	111.41	52.3	53.8	-11.8
Int'l Technology B	OT	EQ	LUX	12/30	USD	96.54	50.8	52.2	-12.7
Int'l Technology C	OT	EQ	LUX	12/30	USD	107.66	51.6	53.1	-12.2
Int'l Technology I	OT	EQ	LUX	12/30	USD	124.91	53.5	55.0	-11.1
Japan Eq Blend A	JP	EQ	LUX	12/30	JPY	6025.00	12.3	13.4	-22.7
Japan Eq Blend B	JP	EQ	LUX	12/30	JPY	5813.00	11.1	12.3	-23.5
Japan Eq Blend C	JP	EQ	LUX	12/30	JPY	5928.00	11.8	12.9	-23.1
Japan Growth A	JP	EQ	LUX	12/30	JPY	5874.00	5.6	6.5	-23.3
Japan Growth B	JP	EQ	LUX	12/30	JPY	5669.00	4.6	5.5	-24.1
Japan Growth C	JP	EQ	LUX	12/30	JPY	5781.00	5.1	6.1	-23.7
Japan Strat Value A	JP	EQ	LUX	12/30	JPY	6120.00	18.7	20.0	-22.5
Japan Strat Value B	JP	EQ	LUX	12/30	JPY	5912.00	17.5	18.8	-23.3
Japan Strat Value C	JP	EQ	LUX	12/30	JPY	6019.00	18.1	19.5	-22.9
Real Estate Sec. A	OT	EQ	LUX	12/30	USD	14.39	34.9	38.0	-14.9
Real Estate Sec. B	OT	EQ	LUX	12/30	USD	13.15	33.5	36.6	-15.7
Real Estate Sec. I	OT	EQ	LUX	12/30	USD	15.46	35.9	39.0	-14.2
Short Mat Dollar A	US	BD	LUX	12/30	USD	7.26	11.2	12.0	-5.9
Short Mat Dollar A2	US	BD	LUX	12/30	USD	9.78	11.6	11.9	-5.9
Short Mat Dollar AT	US	BD	LUX	12/30	USD	7.27	11.8	12.0	-5.9
Short Mat Dollar B	US	BD	LUX	12/30	USD	7.26	10.8	11.5	-6.3
Short Mat Dollar B2	US	BD	LUX	12/30	USD	9.73	11.1	11.3	-6.4
Short Mat Dollar BT	OT	OT	LUX	12/30	USD	7.28	10.4	10.8	-6.6
Short Mat Dollar C	US	BD	LUX	12/30	USD	7.26	10.8	11.5	-6.3
Short Mat Dollar C2	US	BD	LUX	12/30	USD	13.76	11.1	11.4	-6.3
Short Mat Dollar I	US	BD	LUX	12/30	USD	7.26	11.8	12.6	-5.3

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FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	—%RETURN— YTD	12-MO	2-YR
ALEXANDRA INVESTMENT MANAGEMENT									
Tel: +1 212 301 1800 Fax: +1 212 301 1810									
Alexandra Convertible Bond Fund I, Ltd. (Class A)	OT	OT	VGB	11/30	USD	1616.75	66.9	72.1	NS
CREDIT PACIFIC ASSET MANAGMENT									
www.creditpacific.com									
CPS-Master Priv Fund	GL	OT	WSM	12/28	USD	121.52	21.5	21.5	20.8
PLATINUM CAPITAL MANAGEMENT									
Tel: +44 207 024 9840, www.platinumfunds.net									
Platinm-All Star	OT	OT	CYM	10/30	USD	95.07	13.2	5.7	-13.4
Platinm-All Weather	OT	OT	USA	10/31	USD	129.92	2.4	3.2	3.8
Platinm-Dynasty	OT	OT	USA	10/30	USD	108.45	5.5	2.5	-34.0
Platinm-Emancipation	OT	OT	USA	10/30	USD	93.58	25.0	9.3	-11.3
Platinm-Equity Plus	OT	OT	USA	05/29	USD	35.02	-18.2	-63.7	-45.6
Platinm-Gbl Dividend	OT	OT	CYM	10/30	USD	60.64	29.4	15.3	-31.8
Platinm-Nordic	OT	OT	CYM	10/30	SEK	607.79	11.4	9.7	-18.3
Platinm-Premier	OT	OT	CYM	12/31	USD	21.20	-55.9	-66.0	-44.3
Platinm-Turnberry	OT	OT	USA	10/30	USD	56.60	NS	NS	-38.7
SUPERFUND ASSET MANAGEMENT GMBH									
For info about open funds, contact info@superfund.com and www.superfund.com									
**Closed for New Investments*									
Superfund Cayman*	OT	OT	CYM	12/29	USD	41.97	-49.6	-49.9	-5.7
Superfund GCT USD*	GL	EQ	LUX	12/29	USD	2220.00	-39.2	-39.6	-5.1
Superfund Green Gold A (SPC)	OT	OT	CYM	12/29	USD	973.81	-16.2	-12.7	7.7
Superfund Green Gold B (SPC)	OT	OT	CYM	12/29	USD	941.66	-30.1	-27.5	3.5
Superfund Q-AG*	OT	OT	AUT	12/29	EUR	6628.00	-24.4	-24.8	1.2
WINTON CAPITAL MANAGEMENT LTD									
Tel: +44 (0)20 7610 5350 Fax: +44 (0)20 7610 5301									
Winton Evolution EUR Cls H	OT	OT	CYM	11/30	EUR	972.73	NS	NS	NS
Winton Evolution GBP Cls G	OT	OT	CYM	11/30	GBP	976.73	NS	NS	NS
Winton Evolution USD Cls F	OT	OT	CYM	11/30	USD	1232.74	-2.8	-1.2	3.7
Winton Futures EUR Cls C	OT	OT	VGB	11/30	EUR	202.11	-1.8	-0.1	9.2
Winton Futures GBP Cls D	OT	OT	VGB	11/30	GBP	218.35	-1.6	0.4	10.2
Winton Futures JPY Cls E	OT	OT	VGB	11/30	JPY	14398.02	-2.4	-0.4	6.9
Winton Futures USD Cls B	OT	OT	VGB	11/30	USD	716.94	-2.2	-0.2	8.9

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MARKETS

Real estate faces a tough slog to recovery

In the U.S., government aid to housing market is being phased out; commercial sector faces a glut of space

By Nick Timiraos And Anton Troianovski

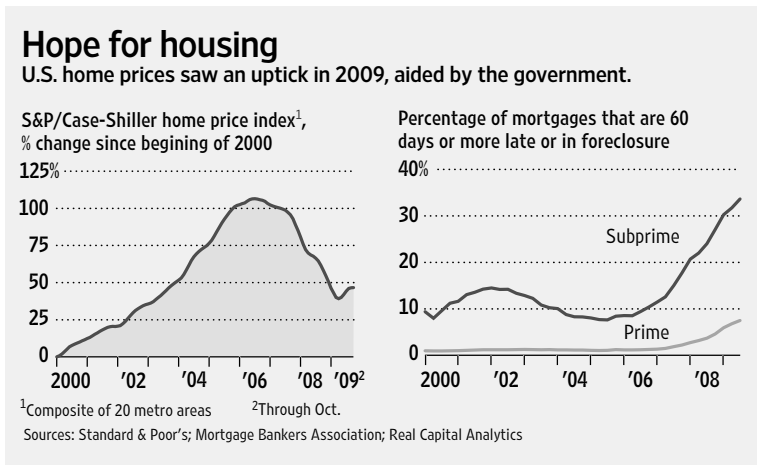
Real estate, which sparked the global economic downturn in 2008, struggled to recover in 2009. But the path to a full return to health is littered with land mines that could send the sector spiraling downward again, possibly upending the nascent economic revival.

The past year's progress in the housing market has relied on government programs that are scheduled to be phased out. The commercial real-estate market is faced with huge amounts of unoccupied space and a deluge of defaults and foreclosures that are putting new stresses on banks and other financial institutions already are on life support.

The outlook for 2010 is uncertain, at best.

On the bright side, U.S. housing markets stabilized in 2009 as the Federal Reserve's policies drove mortgage rates to 50-year lows for much of the spring and autumn. Home prices posted six consecutive months of modest gains through October. The supply of foreclosed homes for sale has declined, in part the result of a program President Obama's administration launched in February designed to keep at-risk borrowers in their homes.

But the underpinnings of the positive trends are fragile. The Fed brought down mortgage rates by committing to purchase as much as $1.25 trillion in mortgage-backed securities. That program, already extended once, is set to expire in March.



Rates could rise by a full percentage point after those purchases end, sapping any housing recovery, says Ronald Temple, portfolio manager at Lazard Asset Management. He predicts that prices could fall by 15% to 20% if the program ends as planned in March.

Home sales also have been supported by an $8,000 tax credit for first-time buyers. It, too, was set to expire in 2009 but was extended by Congress through the first half of 2010.

On the foreclosure front, the government's battle is far from won. Loan servicers signed up 728,000 borrowers through November for trial loan modifications under the Obama program. Just 31,000 have received a permanent fix so far, or fewer than 5% of those eligible.

Adding to the problem, the number of struggling homeowners is steadily mounting. Some owners have lost their jobs.

Some are giving up their homes because the value has fallen below what they owe. Prices have fallen 29% from their July 2006 peak to October 2009, based on the S&P/Case-Shiller Home Price Index, which tracks home values in 20 cities. Nearly one in four mortgage holders owe more than their homes are worth, according to First American CoreLogic, leaving many potential "move up" buyers trapped in homes they can't sell.

"You don't see the normal food chain working," says Ivy Zelman, chief executive of Zelman & Associates, a housing-research firm.

More foreclosures are expected as loan delinquencies climb. "It's really hard to envision a positive scenario of home prices going up when you've got this huge overhang," Lazard's Mr. Temple says.

Meanwhile, the pain is just beginning for commercial-property markets. Deal makers who took out huge loans to buy property during the boom often justified the high prices they paid by assuming that rents and occupancy rates would keep rising. Instead, both have plummeted.

Take Midtown Manhattan, the most expensive office market in the U.S. The amount of available space has increased by 1.5 million square meters since the beginning of 2008, according to brokerage CB Richard Ellis Group Inc. That is roughly equivalent to 16 empty 40-story office towers. Midtown building owners have dropped their asking rents by more than 30% since November 2008.

As the extent to which banks are exposed to commercial-real-estate losses became clear, the government scrambled to contain the damage. The Federal Deposit Insurance Corp., which has been seizing banks hurt by bad property loans, is offering private investors lucrative financing to buy and work out those loans.

In the biggest such deal, Barry Sternlicht's **Starwood Capital Group** last autumn led a group of investors who paid $2.8 billion for a portfolio of 112 construction loans made by Chicago's Corus Bank with a face value of $5 billion. Small and midsize banks are particularly vulnerable to being dragged down by their real-estate portfolios.

"There are going to be huge losses and a huge number of banks failing," says Deutsche Bank commercial-real-estate analyst Richard Parkus. "This is just the tip of the iceberg."

More than $1.4 billion in commercial mortgages will come due by 2013, and as much as 65% of those will have trouble getting refinanced, Mr. Parkus says.

One major wild card in 2010: When will big investors get back into the market?

For now, institutions that control more than $100 billion in unspent capital earmarked for real-estate deals have been waiting for prices to drop and more distress to come.

Research firm Real Capital Analytics recorded only $42 billion in U.S. commercial-real-estate transactions through November 2009, compared with $136 billion in the same period in 2008 and $489 billion in 2007.

But optimists believe that all that money on the sidelines will make for a quick rebound when investor sentiment improves.

"When confidence returns to the markets," says Dan Fasulo, Real Capital's head of research, "I think things are going to spiral upwards again very quickly."

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FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
Concentra AE	EU	EQ	DEU	12/30	EUR	52.17	34.2	34.2	-12.0
Industria AE	EU	EQ	DEU	12/30	EUR	71.52	36.7	36.7	-17.2
InternRent AE	EU	BD	DEU	12/30	EUR	35.22	3.7	3.7	10.0

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CAM-GTF Limited	AS	EQ	MUS	12/24	USD	270374.49	100.4	97.4	3.1

GAM

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Tel +353 1 609 3927 Fax +353 1 611 7941, Internet: www.gam.com

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
GAM Arbitrage Op	OT	OT	VGB	12/18	USD	1251.05	23.4	20.3	-8.5
GAM Asia Eq Hdg JPY Op	GL	EQ	VGB	12/29	JPY	15173.67	61.9	63.5	1.4
GAM Asia Equity Hedge US	OT	OT	VGB	12/29	USD	285.06	63.3	67.3	3.2
GAM Asia Equity USD	OT	OT	VGB	12/30	USD	647.44	61.3	63.8	-13.4
GAM Asia-Pacific Eq USD	OT	OT	VGB	12/29	USD	1291.65	20.2	24.0	-15.5
GAM Com Glb Bal EUR Op	US	BA	VGB	12/14	EUR	93.10	14.7	17.0	-9.9
GAM Com Glb Bal USD Op	US	BA	VGB	12/14	USD	127.31	14.7	17.0	-9.9
GAM Comp Glb Eq EUR Op	GL	EQ	VGB	12/14	EUR	95.07	21.3	24.9	-17.2
GAM Comp Glb Eq USD Op	GL	EQ	VGB	12/14	USD	126.70	21.3	24.9	-17.2
GAM Comp Glb Gr EUR Op	US	BA	VGB	12/14	EUR	83.88	15.0	17.9	-14.3
GAM Comp Glb Gr USD Op	US	BA	VGB	12/14	USD	126.34	15.0	17.9	-14.3
GAM CompAbsRT EUR Op	OT	OT	VGB	09/30	EUR	141.71	9.1	0.1	-6.9
GAM CompAbsRT SGD Op	OT	OT	VGB	09/30	SGD	102.21	9.2	-0.1	-8.3
GAM CompAbsRT USD Op	OT	OT	VGB	09/30	USD	845.66	9.5	0.7	-7.0
GAM Cptal Apprec Eq Inc	US	EQ	VGB	12/29	USD	250.35	37.4	43.2	-11.8
GAM Cross Trading Inc	OT	OT	VGB	12/14	USD	464.04	6.1	NS	NS
GAM Diversity CHF Op	OT	OT	VGB	12/14	CHF	94.54	4.5	3.8	-6.9
GAM Diversity EUR Op	OT	OT	VGB	12/14	EUR	649.99	5.3	4.9	-5.3
GAM Diversity USD 2.5XL	OT	OT	VGB	12/14	USD	78.80	9.2	8.2	NS
GAM Diversity USD Op	OT	OT	VGB	12/14	USD	682.53	5.3	NS	NS
GAM Dvrsty II CHF Op	OT	OT	VGB	12/14	CHF	99.84	4.4	NS	NS
GAM Dvrsty II EUR Op	OT	OT	VGB	12/14	EUR	139.19	4.9	4.1	-5.4
GAM Dvrsty II USD Op	OT	OT	VGB	12/14	USD	210.84	4.9	NS	-5.6
GAM DvrstyIII EUR Op	OT	OT	VGB	12/14	EUR	115.92	4.9	4.1	-5.5
GAM DvrstyIII USD Op	OT	OT	VGB	12/14	USD	122.37	4.9	4.1	-5.6
GAM Euro Eq Hdg EUR Op	EU	EQ	VGB	12/29	EUR	219.18	11.1	13.4	-4.6
GAM Euro Eq Hdg USD Op	OT	OT	VGB	12/29	USD	203.67	11.8	13.7	-3.0
GAM European Equity USD	OT	OT	VGB	12/30	USD	294.97	25.4	25.6	-14.6
GAM GAMCO	OT	EQ	VGB	12/29	USD	817.72	40.9	49.9	-10.6
GAM Gb EmMkts Hdg EUROp	OT	OT	VGB	12/21	EUR	97.09	12.5	11.4	-16.7
GAM Gb EmMkts Hdg USDOp	OT	OT	VGB	12/29	USD	102.58	13.3	13.5	-16.3
GAM Gbl Divers USD Inc.	GL	EQ	VGB	12/29	USD	253.09	23.9	26.1	-7.5
GAM Grtr China Eq Hdg Op	GL	EQ	VGB	12/21	USD	266.36	86.5	93.0	18.3
GAM Intrst Trend II	GL	BD	VGB	12/29	USD	93.98	42.2	38.5	-9.2
GAM Intrst Trend Inc	OT	OT	VGB	12/29	USD	251.14	57.6	57.1	-7.2
GAM Japan Eq Hdg EUR Op	AS	EQ	VGB	12/29	EUR	117.54	10.1	10.6	-7.0
GAM Japan Eq Hdg USD Op	OT	OT	VGB	12/29	USD	122.59	9.0	9.0	-19.0
GAM Japan Eq Hdg YEN Open	AS	EQ	VGB	12/21	JPY	8288.45	7.4	10.7	-19.1
GAM Japan USD	JP	EQ	VGB	12/29	USD	1116.59	7.9	8.6	-15.6
GAM Japan YEN	JP	EQ	VGB	12/29	JPY	8890.89	11.0	11.7	-22.8
GAM Money Mkt EuroOp	EU	MM	VGB	12/30	EUR	51.20	0.1	0.1	1.7
GAM Money Mkt USD	US	MM	VGB	12/30	USD	99.90	-0.1	-0.1	0.8
GAM Multi-Arb EUR Op	OT	OT	VGB	12/14	EUR	113.29	1.1	-0.9	-8.6
GAM Multi-Arb USD Op	OT	OT	VGB	12/14	USD	118.28	1.3	-0.8	-8.8
GAM Multi-China EUR Op	OT	OT	VGB	12/14	EUR	167.99	13.1	13.0	-8.8
GAM Multi-China USD Op	OT	OT	VGB	12/14	USD	176.61	13.7	13.6	-9.4
GAM Multi-Emer Mkts GBP	OT	OT	VGB	12/14	GBP	130.34	24.6	23.9	-3.0
GAM Multi-Emer Mkts USD	OT	OT	VGB	12/14	USD	645.36	24.6	23.9	-3.4
GAM Multi-Eur EUR Op	OT	OT	VGB	12/14	EUR	267.99	6.8	6.0	-10.3
GAM Multi-Eur II EUR Op	OT	OT	VGB	12/14	EUR	137.89	6.7	8.6	-10.3
GAM Multi-Eur II USD Op	OT	OT	VGB	12/14	USD	112.76	6.3	8.2	-11.3
GAM Multi-Eur USD Op	OT	OT	VGB	12/14	USD	466.44	6.4	5.6	-11.2
GAM Multi-Nth Am EUR Special	OT	OT	VGB	12/14	EUR	132.77	11.4	12.3	NS
GAM Multi-Nth Am USD Special	OT	OT	VGB	12/14	USD	216.31	11.8	13.0	NS
GAM Multi-Pac EUR Op	GL	EQ	VGB	12/14	EUR	142.45	4.5	4.1	-4.8
GAM Multi-Pac USD Op	OT	OT	VGB	12/14	USD	164.43	4.6	4.4	-5.2
GAM Portable Dvr/S&P500	OT	OT	VGB	08/24	USD	70.11	17.7	-27.7	-22.9
GAM Selection Hdg	US	EQ	VGB	12/18	USD	2595.04	66.8	67.3	10.6
GAM Sing/Malaysia	AS	EQ	VGB	12/30	USD	2544.79	53.2	53.5	-10.5
GAM Sterling Spe Bd Inc	OT	OT	VGB	12/29	GBP	243.05	40.7	41.4	2.2
GAM Trading EUR Inc	OT	OT	VGB	12/14	EUR	323.84	5.9	5.4	6.8
GAM Trading USD Inc	OT	OT	VGB	12/14	USD	969.19	6.1	5.7	6.3
GAM Trdg II IncEUR Op	OT	OT	VGB	12/14	EUR	138.52	5.8	5.3	6.8
GAM Trdg II IncUSD Op	OT	OT	VGB	12/14	USD	314.69	6.1	5.7	6.3
GAM Trdg IV IncEUR Op	OT	OT	VGB	12/14	EUR	146.18	5.6	5.0	6.5
GAM Trdg IV IncUSD Op	OT	OT	VGB	12/14	USD	153.91	5.9	5.4	6.2
GAM Trdg V IncEUR Op	OT	OT	VGB	12/14	EUR	123.94	5.6	4.9	6.3
GAM Trdg V IncUSD Op	OT	OT	VGB	12/14	USD	129.08	5.8	5.4	6.1
GAM TrdgIII IncEUR Op	OT	OT	VGB	12/14	EUR	156.35	5.7	5.2	6.5
GAM TrdgIII IncUSD Op	OT	OT	VGB	12/14	USD	161.86	5.9	5.5	6.2
GAM USDSpecBondInc	US	BD	VGB	12/29	USD	527.31	73.4	75.7	6.4
GAM Worldwide	GL	EQ	VGB	12/30	USD	2253.36	25.8	26.6	-10.3
GAMut Investments	OT	OT	VGB	12/23	USD	7557.00	4.1	3.7	7.7

■ GAM Star Fund Plc

GAMStar-AsEqCHF Ord Ac	AS	EQ	IRL	12/30	CHF	10.93	54.3	57.8	-16.8
GAMStar-AsEqEUR Ord Ac	AS	EQ	IRL	12/30	EUR	11.77	57.3	60.9	-11.4
GAMStar-AsEqGBP Ord Ac	AS	EQ	IRL	12/30	GBP	1.56	47.1	46.9	-2.5
GAMStar-AsEqUSD Ord Ac	AS	EQ	IRL	12/30	USD	13.26	61.7	63.9	-12.2
GAMStar-AsPacEqEUR Acc	AS	EQ	IRL	12/29	EUR	101.39	20.0	21.6	-13.4
GAMStar-AsPacEqEUR Inc	AS	EQ	IRL	12/29	EUR	98.12	20.0	21.6	-13.4
GAMStar-ContEurEqEUR Ac	EU	EQ	IRL	12/30	EUR	11.00	25.0	25.0	-11.3
GAMStar-EurpEqEUR Acc	EU	EQ	IRL	12/30	EUR	182.29	24.5	25.8	-13.7
GAMStar-EurpEqEUR Inc	EU	EQ	IRL	12/30	EUR	166.57	24.4	25.7	-13.7
GAMStar-EurpEqUSD Acc	EU	EQ	IRL	12/30	USD	15.93	27.7	27.8	-14.6
GAMStar-EurpEqUSD Inc	EU	EQ	IRL	12/30	USD	14.45	27.6	27.8	-14.6
GAMStar-FrontierOppUSD Acc	GL	EQ	IRL	12/29	USD	5.52	17.3	18.5	NS
GAMStar-JpnEq EUR Acc	JP	EQ	IRL	12/29	EUR	89.03	9.4	10.0	-12.3
GAMStar-JpnEq EUR Inc	JP	EQ	IRL	12/29	EUR	89.03	9.4	10.0	-12.3
GAMStar-JpnEq JPY Acc	JP	EQ	IRL	12/29	JPY	927.76	10.6	11.4	-22.7
GAMStar-JpnEq USD Acc	JP	EQ	IRL	12/29	USD	11.26	7.0	7.7	-15.7
GAMStar-World EqUSD Acc	GL	EQ	IRL	12/30	USD	2232.15	26.8	27.6	-9.8

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American Growth	US	EQ	LUX	12/31	USD	15.27	27.3	27.3	-12.9
American Growth AA	US	EQ	LUX	12/31	USD	0.88	26.9	26.9	-6.2
Asian Equity	AS	EQ	LUX	12/31	USD	2.45	63.9	63.9	-10.4
Asian Equity AA	AS	EQ	LUX	12/31	USD	0.79	63.2	63.2	-10.7
Asian Sm Cap Equity AA	AS	EQ	LUX	12/31	USD	1.16	91.9	91.9	-6.9
China Value A	AS	EQ	LUX	12/31	USD	7.11	64.7	64.7	-7.6
China Value AA	AS	EQ	LUX	12/31	USD	2.24	64.2	64.2	-7.8
Dragon Growth	AS	EQ	LUX	12/31	USD	1.64	67.6	67.6	-10.1
Dragon Growth AA	OT	OT	LUX	12/31	HKD	7.99	67.5	67.5	-11.2
Emg Eastrn Europe A	EU	EQ	LUX	12/31	USD	4.61	95.7	95.7	-19.3
Emg Eastrn Europe AA	EU	EQ	LUX	12/31	USD	1.99	95.4	95.4	-19.5
European Growth	EU	EQ	LUX	12/31	USD	9.16	42.3	42.3	-18.5
European Growth AA	EU	EQ	LUX	12/31	USD	0.65	42.0	42.0	-18.6
Global Contrarain AA	GL	EQ	LUX	12/31	USD	0.88	83.1	83.1	NS
Global Property AA	OT	EQ	LUX	12/31	USD	0.68	47.0	47.0	-13.9
Global Resources AA	OT	EQ	LUX	12/31	USD	1.08	53.8	53.8	-12.7
Healthcare AA	OT	EQ	LUX	12/31	USD	0.94	14.7	14.7	NS
India Equity AA	EA	EQ	LUX	12/31	USD	1.10	81.1	81.1	-19.0
International Growth	GL	EQ	LUX	12/31	USD	3.05	22.4	22.4	-16.0
International Growth AA	GL	EQ	LUX	12/31	USD	0.71	22.1	22.1	-16.2
Japanese Growth	JP	EQ	LUX	12/31	USD	2.75	6.4	6.4	-13.7
Japanese Growth AA	JP	EQ	LUX	12/31	USD	0.72	6.1	6.1	-14.0
Latin America Equity AA	GL	EQ	LUX	12/31	USD	1.29	105.7	105.7	-4.5
Manulife GF Strategic Income Fund AA	OT	OT	NA	12/31	USD	1.00	NS	NS	NS
MGF Asia Value Dividend Equity Fund	OT	OT	Lux	12/31	USD	1.14	NS	NS	NS
Russia Equity AA	EE	EQ	LUX	12/31	USD	0.62	126.3	126.3	-24.1
Taiwan Equity AA	AS	EQ	LUX	12/31	USD	1.08	85.6	85.6	1.4
Turkey Equity AA	EE	EQ	LUX	12/31	USD	0.77	109.3	109.3	-14.3
U.S. Bond AA	US	BD	LUX	12/31	USD	1.11	17.8	17.8	7.3
U.S. Sm Cap Equity AA	US	EQ	LUX	12/31	USD	0.82	71.0	71.0	-13.8
U.S. Special Opportunities	OT	OT	LUX	12/31	USD	0.81	81.4	81.4	0.3
U.S. Tsy Inf-ProtSec AA	OT	BD	LUX	12/31	USD	1.14	7.7	7.7	3.2

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Indonesian Grth Fund	EA	EQ	CYM	12/23	USD	123.61	114.3	105.0	-2.6

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Asia Value Formula Fd-B	AS	EQ	CYM	12/30	USD	7.94	85.1	85.9	-7.0

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Eq. Concentrated Euroland A	OT	OT	LUX	12/29	EUR	93.98	23.4	25.5	-19.4
Eq. Euroland Small Cap A	OT	OT	LUX	12/29	EUR	141.01	42.3	45.1	-12.5
Eq. Global Resources A	OT	OT	LUX	12/29	USD	109.46	56.1	57.6	-10.4
Eq. India A	OT	OT	LUX	12/30	USD	129.67	78.4	77.2	-19.1
Eq. Japan CoreAlpha A	OT	OT	LUX	12/30	JPY	7254.02	23.3	23.3	-13.4
Eq. Latin America A	OT	OT	LUX	12/29	USD	115.78	86.0	91.8	-11.0

■ SGAM Fund

Bonds Eur Hi Yld A	OT	OT	LUX	12/29	EUR	20.56	54.6	55.7	-1.5
Bonds EURO A	OT	OT	LUX	12/29	EUR	41.09	4.1	3.8	5.6
Bonds EUROPE A	OT	OT	LUX	12/29	EUR	39.01	3.0	2.9	4.7
Bonds US OppsCoreplus A	OT	OT	LUX	12/29	USD	36.97	17.2	18.3	8.8
Bonds World A	OT	OT	LUX	12/29	USD	42.18	5.9	4.6	7.2
Eq. China A	AS	EQ	LUX	12/30	USD	23.74	58.9	60.8	-14.7
Eq. ConcentratedEuropeA	EU	EQ	LUX	12/29	EUR	27.06	31.3	33.9	-18.0
Eq. Euroland A	EU	EQ	LUX	12/29	EUR	10.89	18.8	21.2	-20.5
Eq. EurolandCyclclsA	EU	EQ	LUX	12/29	EUR	17.88	30.2	33.1	-15.9
Eq. EurolandFinancialA	OT	EQ	LUX	12/29	EUR	11.40	35.3	38.2	-21.7
Eq. Glbl Emg Cty A	GL	EQ	LUX	12/29	USD	9.55	59.7	63.7	-16.0
Eq. Global A	GL	EQ	LUX	12/29	USD	28.02	33.2	35.9	-14.5
Eq. Global Energy A	OT	EQ	LUX	12/29	USD	18.24	28.0	31.1	-14.8
Eq. Gold Mines A	OT	EQ	LUX	12/29	USD	30.39	45.3	46.1	2.0
Eq. US Lg Cap Gr A	US	EQ	LUX	12/29	USD	15.40	42.8	46.9	-12.8
Eq. US Rel Val A	US	EQ	LUX	12/29	USD	20.74	33.5	39.4	-15.2
Eq. US Sm Cap Val A	US	EQ	LUX	12/29	USD	16.13	24.6	33.7	-19.9
Money Market EURO A	EU	MM	LUX	12/29	EUR	27.40	1.0	1.0	2.6
Money Market USD A	US	MM	LUX	12/29	USD	15.83	0.5	0.6	1.7

المستثمر الوطني The National Investor

■ THE NATIONAL INVESTOR
TNI Tower | Zayed 1st Street Khalidia| Web:www.tni.ae

TNI Mena Real Estate Fund	OT	OT	BMU	12/24	USD	966.38	2.8	-1.4	-26.9
TNI MENA Special Sits Fund	OT	OT	BMU	11/30	USD	1070.31	10.2	10.3	NS
TNI UAE Blue Chip Fund	OT	OT	ARE	12/24	AED	5.22	13.7	1.5	-32.2

Value Partners
Investing through discipline

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**formerly known as China ABH Shares Fund*

Intel-Chin MainInd Foc	AS	EQ	CYM	12/15	USD	29.84	86.0	90.8	0.9
Intel-China Converg*	AS	EQ	CYM	12/15	USD	114.29	87.6	93.1	-0.6
VP Classic - A	AS	EQ	CYM	12/30	USD	184.28	80.8	86.7	-2.9
VP CLassic - B	AS	EQ	CYM	12/30	USD	85.89	79.9	85.7	-3.4
VP High Dividend Stk	AS	EQ	CYM	12/28	USD	45.43	82.8	81.4	-0.8

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Tel +44-207-269 0203 www.yukifunds.com

■ YMR-N Series

YMR-N Growth Fund	OT	OT	IRL	12/30	JPY	9458.00	9.9	9.9	-24.9
YMR-N Small Cap Fund	OT	OT	IRL	12/30	JPY	7012.00	9.3	9.3	-24.8

■ Yuki 77 Series

Yuki 77 General	JP	EQ	IRL	12/30	JPY	6151.00	4.2	4.2	-26.8
Yuki 77 Growth	JP	EQ	IRL	12/30	JPY	5642.00	-4.6	-4.6	-32.2

■ Yuki Chugoku Series

Yuki Chugoku Jpn Gen	JP	EQ	IRL	12/30	JPY	6827.00	9.4	9.4	-23.4
Yuki Chugoku JpnLowP	JP	EQ	IRL	12/30	JPY	7541.00	-7.9	-7.9	-23.9

■ Yuki Hokuyo Japan Series

Yuki Hokuyo Jpn Gen	JP	EQ	IRL	12/30	JPY	4673.00	2.7	2.7	-27.2
Yuki Hokuyo Jpn Inc	JP	EQ	IRL	12/30	JPY	5248.00	-0.6	-0.6	-21.1
Yuki Hokuyo Jpn Sm Cap	JP	EQ	IRL	12/30	JPY	5105.00	8.5	8.5	-23.1

■ Yuki Mizuho Series

Yuki Mizuho Gen Jpn III	OT	OT	IRL	12/30	JPY	4420.00	4.0	4.0	-31.0
Yuki Mizuho Jpn Dyn Gro	OT	OT	IRL	12/30	JPY	4665.00	3.9	3.9	-30.7
Yuki Mizuho Jpn Exc 100	OT	OT	IRL	12/30	JPY	6971.00	14.3	14.3	-25.4
Yuki Mizuho Jpn Gen	OT	OT	IRL	12/30	JPY	8616.00	7.4	7.4	-25.1
Yuki Mizuho Jpn Gro	OT	OT	IRL	12/30	JPY	6358.00	1.7	1.7	-28.2
Yuki Mizuho Jpn Inc	OT	OT	IRL	12/30	JPY	7634.00	-4.0	-4.0	-23.7
Yuki Mizuho Jpn Lg Cap	OT	OT	IRL	12/30	JPY	5189.00	4.1	4.1	-25.8
Yuki Mizuho Jpn LowP	OT	OT	IRL	12/30	JPY	11561.00	2.0	2.0	-20.1
Yuki Mizuho Jpn PGth	OT	OT	IRL	12/30	JPY	7960.00	4.2	4.2	-30.4
Yuki Mizuho Jpn SmCp	OT	OT	IRL	12/30	JPY	7137.00	16.4	16.4	-25.0
Yuki Mizuho Jpn Val Sel	OT	OT	IRL	12/30	JPY	5648.00	8.8	8.8	-22.5
Yuki Mizuho Jpn YoungCo	OT	OT	IRL	12/30	JPY	2726.00	14.2	14.2	-30.9

■ Yuki Shizuoka Japan Series

Yuki Shizuoka General Japan	JP	EQ	IRL	12/30	JPY	5421.00	6.3	6.3	-24.7

For information about listing your funds, please contact: Carson Wong tel: +852 2831-6481; email: carson.wong@dowjones.com

Major players & benchmarks

At right, a look at the Asia Titans, the biggest and best known companies in Asia. Below, some of the Dow Jones Titans indexes of biggest and most liquid stocks in individual countries and regions

Giants around the world

In U.S.-dollar terms.

Dow Jones Country Titans

	INDEX PERFORMANCE		
	Previous session	Year-to-date	52-week
Brazil	-0.03%	**106.9%**	95.3%
Russia	2.22	**106.5**	106.5
Turkey	2.70	**92.0**	92.0
China 88	0.49	**84.2**	84.2
Singapore	0.66	**66.3**	66.3
South Korea	unch.	**53.7**	53.7
Sweden	unch.	**48.7**	48.7
Hong Kong	1.86	**48.0**	48.0
Netherlands	0.09	**40.4**	40.4
Australia	0.68	**29.7**	29.7
Canada	0.12	**28.8**	28.8
Switzerland	unch.	**25.6**	25.6
France	-0.03	**22.9**	22.9
South Africa	1.27	**22.8**	22.8
Italy	unch.	**22.4**	22.4
U.K.	0.17	**21.5**	21.5
Germany	unch.	**17.9**	17.9
Spain	unch.	**17.3**	17.3
Japan	unch.	**7.9**	7.9

Dow Jones Regional Sector Titans

Basic Res	0.52%	**84.2%**	84.2%
Tiger 50*	1.28	**57.4**	57.4
Technology	-0.81	**55.5**	55.5
Nordic 30	0.13	**38.0**	38.0
EU Enlarged†	0.38	**33.4**	33.4
Asian 50	0.56	**30.9**	30.9
Stoxx 50	0.25	**24.1**	24.1
Euro Stoxx 50	-0.04	**21.1**	21.1
Global 50	-0.41	**20.6**	20.6
Arab 50	0.22	**4.4**	4.4

*Asia excluding Japan †15 companies from the new EU countries; Cyprus, CzechRepublic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia.

Source: Dow Jones Indexes

Dow Jones Asia Titans: Year's best and worst...

Company	Country	Industry	Market value, in billions of US$	Previous close, in local currency	STOCK PERFORMANCE Year to date	Thursday	Three-year
Hon Hai Precision Ind	Taiwan	Electrical Components Equipment	$40.3	151.50	**171.38%**	1.3%	-0.4%
Nissan Motor	Japan	Automobiles	35.6	810.00	**153.13**	Closed	-44.3
RioZim Ltd	Australia	General Mining	40.8	74.89	**149.70**	0.3	32.9
Commonwlth Bk of Aus	Australia	Banks	74.8	54.85	**89.79**	0.8	11.9
Mitsubishi	Japan	Industrial Suppliers	40.8	2,305	**86.19**	Closed	3.4
Seven I Hldgs	Japan	Broadline Retailers	$18.5	1,897	**-37.80%**	Closed	-50.5
Mizuho Financial Grp	Japan	Banks	25.2	166.00	**-35.58**	Closed	-80.6
Nintendo	Japan	Toys	30.4	22,040	**-34.70**	Closed	-26.2
Sumitomo Mitsui Finl	Japan	Banks	28.8	2,645	**-29.65**	Closed	-78.3
NTT DoCoMo	Japan	Mobile Telecommunications	58.4	129,600	**-26.53**	Closed	-32.5

...And the rest of Asia's blue chips

Company/Country (Industry)	Market value, in billions (U.S)	Latest, in local currency	STOCK PERFORMANCE YTD	Thursday	Three-year
KB Fncl Group South Korea (Banks)	19.7	59,700	**82.19%**	Closed	-13.2%
Sun Hung Kai Prop Hong Kong (Real Estate Holding Development)	38.5	116.30	**80.03**	1.3%	28.8
Samsung Elec South Korea (Semiconductors)	101.0	799,000	**77.16**	Closed	31.6
CNOOC Hong Kong (Exploration Production)	70.3	12.20	**68.51**	2.4	69.4
Honda Motor Japan (Automobiles)	61.3	3,110	**63.17**	Closed	-34.4
China Life Ins Hong Kong (Life Insurance)	36.8	38.35	**62.85**	1.7	42.0
POSCO South Korea (Iron Steel)	40.3	618,000	**62.63**	Closed	112.4
Indl Comm Bk China Hong Kong (Banks)	69.0	6.44	**57.84**	1.4	30.6
China Constr Bk Hong Kong (Banks)	193.0	6.67	**56.94**	2.9	32.9
JFE Hldgs Japan (Iron Steel)	20.8	3,650	**56.32**	Closed	-40.2
Shinhan Financial Grp South Korea (Banks)	17.6	43,200	**50.51**	Closed	-3.0
Aus NZ Bk Australia (Banks)	51.4	22.88	**49.64**	0.6	-19.2
Westpac Bking Australia (Banks)	66.1	25.30	**49.09**	0.1	5.4
Taiwan Smcndtr Mfg Taiwan (Semiconductors)	52.1	64.50	**46.00**	0.9	-3.3
Mitsui Japan (Industrial Suppliers)	25.6	1,311	**45.50**	Closed	-25.0
BHP Billiton Australia (General Mining)	130.0	43.12	**41.66**	1.0	76.9
Canon Japan (Electronic Office Equipment)	52.0	3,910	**41.16**	Closed	-41.4
Sony Japan (Consumer Electronics)	28.7	2,670	**38.92**	Closed	-48.6
Hutchison Whampoa Hong Kong (Diversified Industrials)	29.4	53.40	**37.45**	1.9	-32.5
PetroChina Hong Kong (Integrated Oil Gas)	25.4	9.32	**37.26**	0.9	-12.1

Company/Country (Industry)	Market value, in billions (U.S)	Latest, in local currency	STOCK PERFORMANCE YTD	Thursday	Three-year
Cheung Kong Hong Kong (Real Estate Holding Development)	30.0	100.30	**36.83%**	1.4%	4.6%
Toyota Motor Japan (Automobiles)	132.0	3,880	**33.56**	Closed	-52.0
National Australia Bk Australia (Banks)	51.5	27.40	**31.29**	0.7	-31.5
Nippon Steel Japan (Iron Steel)	25.4	375.00	**29.31**	Closed	-43.5
Woodside Petroleum Australia (Exploration Production)	30.4	47.20	**28.61**	-0.3	28.8
Shin-Etsu Chml Japan (Specialty Chemicals)	23.9	5,230	**28.50**	Closed	-34.9
Panasonic Japan (Consumer Electronics)	29.6	1,325	**19.05**	Closed	-45.4
Japan Tobacco Japan (Tobacco)	32.4	313,000	**6.10**	Closed	-47.3
Woolworths Australia (Food Retailers Wholesalers)	30.9	28.00	**4.99**	1.5	20.5
QBE Ins Grp Australia (Reinsurance)	23.5	25.60	**-0.81**	0.7	-9.9
Tokio Marine Hldgs Japan (Property Casualty Insurance)	21.5	2,530	**-1.94**	Closed	-42.2
Westfield Grp Australia (Retail REITs)	26.0	12.54	**-3.17**	1.1	-38.5
China Mobile (HK) Hong Kong (Mobile Telecommunications)	187.0	72.85	**-6.36**	3.6	6.8
East Japan Railway Japan (Travel Tourism)	25.0	5,870	**-14.80**	Closed	-27.0
Takeda Pharm Japan (Pharmaceuticals)	32.6	3,830	**-17.46**	Closed	-53.2
Mitsubishi UFJ Finl Japan (Banks)	67.8	452.00	**-17.67**	Closed	-69.7
Kansai Elec Power Japan (Conventional Electricity)	21.6	2,100	**-19.23**	Closed	-36.4
Nippon T&T Japan (Fixed Line Telecommunications)	52.1	3,650	**-22.01**	Closed	-40.1
Tokyo Elec Power Japan (Conventional Electricity)	34.0	2,335	**-22.17**	Closed	-41.3
KDDI Japan (Mobile Telecommunications)	23.5	493,000	**-22.36**	Closed	-39.1

Sources: Dow Jones Indexes; WSJ Market Data Group

Tracking credit markets & dealmakers

— NOTICE TO READERS —
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Hedge funds

Dow Jones Hedge Benchmark	TOTAL RETURN for rolling periods, net of fees* One week	One month	One quarter	Year to date	One year
Merger Arbitrage	0.08%	0.95%	1.5%	8.2%	8.2%
Event Driven	0.23	0.98	2.9	15.4	15.4
Equity Long/Short	0.26	2.07	1.2	5.1	5.1

*Estimates as of 12/30/09, after fees; Source: www.djhedgefundindexes.com

Credit derivatives

Spreads on credit derivatives are one way the market rates creditworthiness. Regions that are treading in rough waters can see spreads swing toward the maximum—and vice versa. Indexes below are for five-year swaps.

Markit iTraxx Indexes

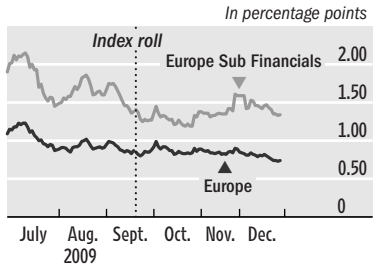
Index: series/version	Mid-spread, in pct. pts.	Mid-price	Coupon	SPREAD RANGE, in pct. pts. since most recent roll Maximum	Minimum	Average
Europe: 12/1	0.74	101.23%	0.01%	1.00	0.72	0.85
Eur. High Volatility: 12/1	1.04	99.80	0.01	1.76	1.00	1.38
Europe Crossover: 12/1	4.32	102.72	0.05	6.15	4.28	5.21
Asia ex-Japan IG: 12/1	0.96	100.18	0.01	1.29	0.96	1.08
Japan: 12/1	1.34	98.40	0.01	1.68	0.99	1.33

Note: Data as of December 30

Spreads

Spreads on five-year swaps for corporate debt; based on Markit iTraxx indexes.

In percentage points



Source: Markit Group

Credit-default swaps: Asian companies

At its most basic, the pricing of credit-default swaps measures how much a buyer has to pay to purchase-and how much a seller demands to sell-protection from default on an issuer's debt. The snapshot below gives a sense which way the market was moving yesterday.

Showing the biggest improvement...

	Yesterday	CHANGE, in basis points Yesterday	Five-day	28-day
Elpida Memory	658	**-22**	-10	3
Expt Import Bk of China	112	**-8**	-6	-7
Promise	786	**-8**	-75	-222
IHI	325	**-8**	-12	-13
Taisei	362	**-7**	-10	-25
Fuji Heavy Inds	125	**-7**	-5	-8
Acom	254	**-3**	-27	-165
Kawasaki Heavy Inds	150	**-3**	-4	-20
Softbank	420	**-2**	-10	-30
Woori Bk	113	**-2**	-4	-13

And the most deterioration

	Yesterday	CHANGE, in basis points Yesterday	Five-day	28-day
Marubeni	208	**2**	-1	7
Tokio Marine Nichido Fire Ins	73	**2**	-2	-7
NTT Docomo	28	**2**	2	3
Mitsui Sumitomo Ins	72	**2**	-2	-8
Sumitomo Chem	62	**2**	-5	-8
Ptt Pub	92	**3**	4	-2
Obayashi	197	**3**	-8	-23
Shin Han Bk	107	**4**	1	-7
Orix	269	**4**	-37	-133
Wharf Hldgs	87	**5**	5	-3

Source: Markit Group

Behind Europe's deals: Bank revenue rankings, Eurozone

Behind every IPO, bond offering, merger deal or syndicated loan is one or more investment banks. Here are investment banks ranked by year-to-date revenues from recent deals.

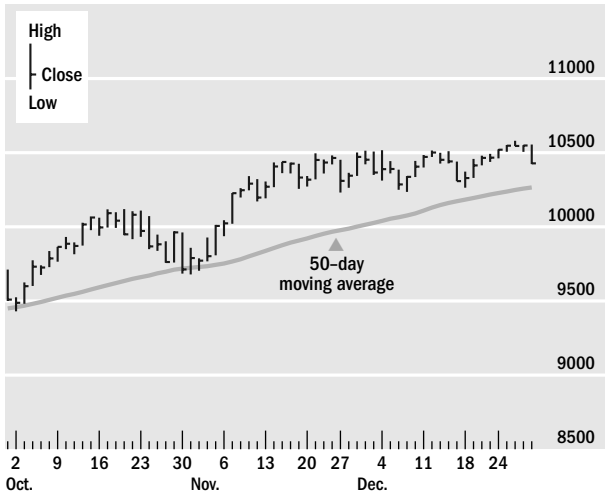
	Revenue, in millions	Market share	PERCENTAGE OF TOTAL REVENUE Equity capital markets	Debt capital markets	Mergers & acquisitions	Loans
JPMorgan	$813	7.2%	29%	31%	37%	3%
Deutsche Bank	750	6.7	20	48	29	3
BNP Paribas	685	6.1	23	48	21	8
Credit Suisse	605	5.4	30	41	27	2
Goldman Sachs	558	5.0	33	15	51	1
Calyon	468	4.2	33	50	8	9
Bank of America Merrill Lynch	454	4.0	27	28	40	5
SG Corporate Investment Banking	441	3.9	30	53	10	7
Morgan Stanley	439	3.9	42	26	30	2

Source: Dealogic

SCANNING THE GLOBE

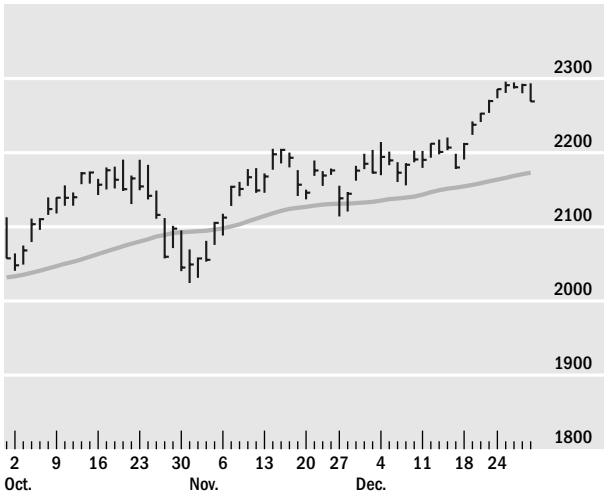
Dow Jones Industrial Average P/E: 18

LAST: **10428.05** ▼ 120.46, or 1.14%
YEAR TO DATE: ▲ **1,651.66, or 18.8%**
OVER 52 WEEKS ▲ **1,651.66, or 18.8%**



Nasdaq Composite Index P/E: 49*

LAST: **2269.15** ▼ 22.13, or 0.97%
YEAR TO DATE: ▲ **692.12, or 43.9%**
OVER 52 WEEKS ▲ **692.12, or 43.9%**



S&P 500 Index P/E: 75

LAST: **1115.10** ▼ 11.32, or 1.00%
YEAR TO DATE: ▲ **211.85, or 23.5%**
OVER 52 WEEKS ▲ **211.85, or 23.5%**

*Price-to-earnings ratio for the Nasdaq 100 Note: Price-to-earnings ratios are for trailing 12 months

Sources: WSJ Market Data Group; Birinyi Associates

DJIA component stocks

Stock	Symbol	Volume, in millions	Latest	CHANGE Points	CHANGE Percentage
AT&T	T	**12.00**	$28.03	-0.29	**-1.02%**
Alcoa	AA	**15.30**	16.12	-0.18	**-1.10**
AmExpress	AXP	**3.40**	40.52	-0.28	**-0.69**
BankAm	BAC	**84.20**	15.06	-0.01	**-0.07**
Boeing	BA	**1.80**	54.13	-0.83	**-1.51**
Caterpillar	CAT	**3.50**	56.99	-1.06	**-1.83**
Chevron	CVX	**3.20**	76.99	-0.66	**-0.85**
CiscoSys	CSCO	**19.90**	23.94	-0.24	**-0.99**
CocaCola	KO	**4.30**	57.00	-0.68	**-1.18**
Disney	DIS	**10.80**	32.25	-0.03	**-0.09**
DuPont	DD	**3.60**	33.67	-0.38	**-1.12**
ExxonMobil	XOM	**15.70**	68.19	-0.58	**-0.84**
GenElec	GE	**37.40**	15.13	-0.22	**-1.43**
HewlettPk	HPQ	**12.40**	51.51	-1.42	**-2.68**
HomeDpt	HD	**6.40**	28.93	-0.20	**-0.69**
Intel	INTC	**19.70**	20.40	-0.19	**-0.92**
IBM	IBM	**3.70**	130.90	-1.67	**-1.26**
JPMorgChas	JPM	**16.60**	41.67	0.14	**0.34**
JohnsJohns	JNJ	**5.40**	64.41	-0.50	**-0.77**
KftFoods	KFT	**4.30**	27.18	-0.31	**-1.13**
McDonalds	MCD	**3.60**	62.44	-0.45	**-0.72**
Merck	MRK	**5.50**	36.54	-0.52	**-1.40**
Microsoft	MSFT	**24.80**	30.48	-0.48	**-1.55**
Pfizer	PFE	**19.70**	18.19	-0.31	**-1.68**
ProctGamb	PG	**4.50**	60.63	-0.74	**-1.21**
3M	MMM	**1.80**	82.67	-1.23	**-1.47**
TravelersCos	TRV	**1.80**	49.86	-0.40	**-0.80**
UnitedTech	UTX	**2.10**	69.41	-1.08	**-1.53**
Verizon	VZ	**6.00**	33.13	-0.29	**-0.87**
WalMart	WMT	**8.40**	53.45	-0.85	**-1.57**

U.S. stocks: most active...

Stock	Symbol	Volume, in millions	Latest	CHANGE Points	CHANGE Percentage
Citigroup	C	**196.7**	$3.31	–$0.01	**–0.30%**
BankAm	BAC	**93.0**	15.06	–0.01	**–0.07**
SPDR S&P 500	SPY	**85.0**	111.44	–1.08	**–0.96**
YRC Worldwide	YRCW	**71.6**	0.84	–0.15	**–15.17**
PwrShrs QQQ	QQQQ	**47.5**	45.75	–0.42	**–0.91**
GenElec	GE	**44.3**	15.13	–0.22	**–1.43**
iShrMSCIEmrgMkt	EEM	**35.1**	41.50	0.14	**0.34**
iShrRu2000	IWM	**33.1**	62.44	–0.75	**–1.19**
SPDR FnclSelSct	XLF	**33.0**	14.40	–0.03	**–0.21**
FannieMae	FNM	**32.5**	1.18	0.02	**1.72**
SprintNextel	S	**30.9**	3.66	–0.12	**–3.17**
FordMotor	F	**30.5**	10.00	0.01	**0.10**
Microsoft	MSFT	**29.7**	30.48	–0.48	**–1.55**
WellsFargo	WFC	**28.7**	26.99	0.17	**0.63**
US NatGas	UNG	**27.4**	10.08	–0.27	**–2.61**

Biggest gainers...

Quixote	QUIX	**3,270.3**	$6.37	$3.42	**115.93%**
IntelliChckM	IDN	**10,037.1**	3.75	1.36	**56.90**
PrimeRlty pfB	PGEZ	**53.5**	5.68	1.53	**36.87**
TongxinIntUt	TXICU	**4.2**	14.57	3.59	**32.64**
Optelcom NKF	OPTC	**225.3**	2.81	0.54	**23.82**

...Biggest losers

PharmAthene	PIP	**2,737.1**	$1.96	-$0.44	**-18.34%**
PrfBkLA	PFBC	**412.3**	1.80	-0.35	**-16.28**
Entorian	ENTN	**32.9**	5.53	-0.97	**-14.92**
BluelinxHldgs	BXC	**42.2**	2.77	-0.41	**-12.89**
FdltySo	LION	**24.9**	3.60	-0.49	**-11.98**

ADRs of Asian companies*

52-WEEK High	52-WEEK Low	Stock	Symbol	Volume, in OOOs	Latest	CHANGE Points	CHANGE Percentage
$11.49	$6.36	**Taiwan Semi**	TSM	**7,104.9**	$11.44	0.16	**1.42%**
3.92	1.65	**Utd Microelectronics**	UMC	**3,528.0**	3.88	0.13	**3.47**
59.22	40.20	**China Mobile**	CHL	**1,723.0**	46.45	0.61	**1.33**
12.07	6.25	**AU Optrncs**	AUO	**1,707.7**	11.99	0.08	**0.67**
6.84	3.71	**Mitsu UFJ Fnl**	MTU	**1,120.2**	4.92	-0.04	**-0.81**
15.95	8.56	**China Unicom**	CHU	**994.7**	13.10	0.05	**0.38**
8.19	3.78	**Siliconware Prec Ind**	SPIL	**958.2**	7.01	0.09	**1.30**
78.75	33.09	**BHP Billiton**	BHP	**944.0**	76.58	-0.37	**-0.48**
30.82	15.64	**Sony**	SNE	**831.2**	29.00	-0.30	**-1.02**
15.29	6.85	**Korea Elec Pwr**	KEP	**761.1**	14.54	-0.06	**-0.41**
56.19	22.61	**Infosys Tech**	INFY	**675.0**	55.27	-0.44	**-0.79**
18.64	12.59	**SK Telecom**	SKM	**598.3**	16.26	0.15	**0.93**
34.52	20.28	**Honda Motor**	HMC	**554.4**	33.90	-0.05	**-0.15**
27.55	17.71	**NTT**	NTT	**435.3**	19.74	-0.29	**-1.45**
9.50	3.96	**Nomura Hldgs**	NMR	**325.6**	7.40	-0.06	**-0.80**
81.00	37.43	**China Life Ins**	LFC	**280.0**	73.35	0.07	**0.10**
32.79	9.91	**Aluminum Cp of China**	ACH	**274.4**	27.25	-0.15	**-0.55**
4.63	1.49	**Adv Semi Engrg**	ASX	**268.1**	4.43	0.00	**0**
17.79	11.30	**KT Corp**	KTC	**255.5**	16.82	0.16	**0.96**
4.00	1.50	**SemiMfgInt**	SMI	**241.6**	3.24	-0.15	**-4.42**
19.56	15.05	**ChunghwaTel**	CHT	**237.2**	18.57	0.10	**0.54**
19.93	13.11	**NTT DoCoMo**	DCM	**234.9**	13.98	-0.14	**-0.99**
87.67	56.79	**Toyota Motor**	TM	**212.9**	84.16	-0.25	**-0.30**
22.32	5.11	**Yanzhou Coal Mining**	YZC	**191.4**	21.83	-0.08	**-0.37**
7.10	2.00	**Alumina**	AWC	**188.0**	6.56	0.02	**0.31**
135.92	63.94	**PetroChina**	PTR	**182.6**	118.96	-0.46	**-0.39**
56.41	31.92	**ChinaTele**	CHA	**173.9**	41.42	0.03	**0.07**
150.50	47.09	**POSCO**	PKX	**144.3**	131.10	-0.37	**-0.28**
34.43	21.60	**Huaneng Power Intl**	HNP	**140.2**	22.42	0.06	**0.27**
9.82	5.43	**Telecom Corp of NZ**	NZT	**124.6**	8.99	0.07	**0.78**

*Most active American depositary receipts tracked by Dow Jones

Source: WSJ Market Data Group

Global government bonds

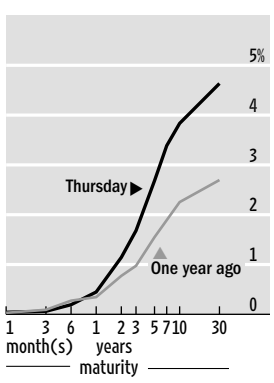
Latest, month-ago and year-ago yields and spreads over or under U.S. Treasurys on benchmark two-year and 10-year government bonds around the world. Data as of 11 a.m. ET

Coupon	Country/ Maturity, in years	Yield	SPREAD OVER TREASURYS, in basis points: Latest	Previous	Month ago	Year ago	YIELD: Previous	Month ago	Year ago
5.750%	**Australia** 2	**4.405%**	**326.2**	321.4	356.2	**196.5**	**4.405%**	4.241%	**2.734%**
4.500	10	**5.725**	**188.8**	183.7	196.7	**177.2**	**5.725**	5.260	**3.996**
5.000	**Austria** 2	**1.766**	**62.3**	58.7	24.2	**133.9**	**1.778**	0.921	**2.108**
3.900	10	**3.867**	**3.0**	-0.1	21.0	**164.7**	**3.887**	3.503	**3.871**
3.500	**Belgium** 2	**1.160**	**1.7**	-9.6	41.0	**144.6**	**1.095**	1.089	**2.215**
4.000	10	**3.717**	**-12.0**	-17.2	27.5	**157.1**	**3.716**	3.568	**3.795**
1.250	**Canada** 2	**1.480**	**33.7**	28.3	41.9	**32.6**	**1.474**	1.098	**1.095**
3.750	10	**3.607**	**-23.0**	-23.6	-4.1	**46.0**	**3.652**	3.252	**2.684**
4.000	**Denmark** 2	**2.118**	**97.5**	92.7	139.2	**194.1**	**2.118**	2.071	**2.710**
4.000	10	**3.678**	**-15.9**	-21.0	23.1	**114.6**	**3.678**	3.524	**3.370**
1.500	**France** 2	**1.249**	**10.6**	5.1	57.2	**133.1**	**1.242**	1.251	**2.100**
3.750	10	**3.610**	**-22.7**	-28.4	13.0	**...**	**3.604**	3.423	**...**
1.250	**Germany** 2	**1.354**	**21.1**	18.2	56.6	**99.1**	**1.373**	1.245	**1.760**
3.250	10	**3.388**	**-44.9**	-49.0	-13.3	**72.0**	**3.398**	3.160	**2.944**
0.550	**Hong Kong** 2	**0.702**	**-44.1**	-48.9	-31.8	**-15.1**	**0.702**	0.361	**0.618**
2.160	10	**2.779**	**-105.8**	-110.9	-110.5	**-98.5**	**2.779**	2.188	**1.239**
3.750	**Italy** 2	**1.579**	**43.6**	38.3	87.4	**230.1**	**1.574**	1.553	**3.070**
4.250	10	**4.139**	**30.2**	24.9	74.2	**216.1**	**4.137**	4.035	**4.385**
0.200	**Japan** 2	**0.150**	**-99.3**	-104.1	-47.6	**-37.8**	**0.150**	0.203	**0.391**
1.300	10	**1.291**	**-254.6**	-259.7	-205.8	**-105.6**	**1.291**	1.235	**1.168**
4.000	**Netherlands** 2	**0.888**	**-25.5**	-34.0	24.9	**124.4**	**0.851**	0.928	**2.013**
4.000	10	**3.565**	**-27.2**	-33.2	11.6	**132.4**	**3.556**	3.409	**3.548**
3.200	**Portugal** 2	**1.297**	**15.4**	18.6	56.5	**181.1**	**1.377**	1.244	**2.580**
4.750	10	**4.075**	**23.8**	19.0	43.8	**174.1**	**4.078**	3.731	**3.965**
5.350	**Spain** 2	**1.634**	**49.1**	41.2	69.0	**159.2**	**1.603**	1.369	**2.361**
4.300	10	**3.998**	**16.1**	10.4	44.5	**159.7**	**3.992**	3.738	**3.821**
2.750	**Switzerland** 2	**0.648**	**-49.5**	-54.3	-9.5	**-16.2**	**0.648**	0.584	**0.607**
2.250	10	**2.025**	**-181.2**	-186.3	-143.2	**-2.3**	**2.025**	1.861	**2.201**
3.250	**U.K.** 2	**1.295**	**15.2**	10.4	47.5	**26.9**	**1.295**	1.154	**1.038**
4.500	10	**4.010**	**17.3**	12.4	25.2	**79.3**	**4.012**	3.545	**3.017**
1.000	**U.S.** 2	**1.143**	**...**	...	...	**...**	**1.191**	0.679	**0.769**
3.375	10	**3.837**	**...**	...	...	**...**	**3.888**	3.293	**2.224**

Source: Thomson Reuters

U.S. Treasury yield curve

The curve shows the yield to maturity of current bills, notes and bonds; all data as of 2 p.m. ET.



Ryan Index	Yield to maturity	Modified duration	TOTAL RETURN Month to-date	Quarter to-date	Year to-date	12-month
30-year Treasury	**4.634%**	16.19	–6.62%	–8.08%	–25.53%	–25.53%
10-year Treasury	**3.834**	8.25	–4.84	–3.39	–9.34	–9.34
7 Year Treasury	**3.386**	6.21	–3.82	–1.59	...	...
Five-year Treasury	**2.682**	4.66	–2.71	–0.53	–0.55	–0.55
Ryan Index	**2.893**	6.70	–3.36	–2.23	–6.53	–6.53
3 Year Treasury	**1.680**	2.89	–1.38	0.07	1.14	1.14
Two-year Treasury	**1.143**	1.97	–0.73	0.19	1.32	1.32
1 Year Treasury	**0.448**	0.96	–0.10	0.20	0.95	0.95
Six-month Treasury	**0.193**	0.50	0.01	0.07	0.64	0.64
Ryan Cash Index-a	**0.185**	0.45	–0.02	0.09	0.53	0.53
Three-month bill	**0.061**	0.25	0.03	0.07	0.38	0.38
One-month bill	**0.041**	0.08	...	0.02	0.14	0.14

a-Performance of a cash investment

Source: Ryan ALM

Key money rates

	Latest	52 wks ago
Prime rates		
U.S.	**3.25%**	3.25%
Canada	**2.25**	3.50
Japan	**1.475**	1.675
Britain	**0.50**	2.00
ECB	**1.00**	2.50
Switzerland	**0.54**	2.02
Australia	**3.75**	4.25
Hong Kong	**5.25**	n.a.
Libor		
One month	**0.23094%**	0.43625%
Three month	**0.25063**	1.42500
Six month	**0.42969**	1.75000
One year	**0.98438**	2.00375

	Latest	52 wks ago
Euro Libor		
One month	**0.41375%**	2.58875%
Three month	**0.65500**	2.89375
Six month	**0.97313**	2.97750
One year	**1.21750**	3.05875
Hibor		
One month	**0.08000**	0.29929%
Three month	**0.13929**	0.95071
Six month	**0.28929**	1.45000
One year	**0.66929**	1.84929
Asian dollars		
One month	**0.2427%**	0.45%
Three month	**0.2610**	1.4425
Six month	**0.4583**	1.7900
One year	**1.0000**	2.0175

	Offer	Bid
Eurodollars		
One month	**0.3500%**	0.2000%
Three month	**0.3300**	0.2300
Six month	**0.4100**	0.3100
One year	**0.6500**	0.5500

	Latest	52 wks ago
U.S. discount	**0.50%**	0.50%
Fed-funds target	**0.25**	0.25
Call money	**2.00**	2.00
Overnight repurchase rates		
U.S.	**0.10%**	0.08%
U.K. (BBA)	**0.493**	1.908
Euro zone	**0.32**	2.17

Sources: WSJ Market Data Group; Reuters

GLOBAL MARKETS LINEUP

Commodities

Prices of futures contracts with the most open interest

EXCHANGE LEGEND: CBOT: Chicago Board of Trade; **CME:** Chicago Mercantile Exchange; **NYBOT:** New York Board of Trade; **MDEX:** Bursa Malaysia Derivatives Berhad; **LIFFE:** London International Financial Futures Exchange; **LME:** London Mercantile Exchange; **NYMEX:** New York Mercantile Exchange; **ICE:** IntercontinentalExchange

Commodity	Exchange	Last price	ONE-DAY CHANGE Net	ONE-DAY CHANGE Percentage	Contract high	Contract low
Corn (cents/bu.)	CBOT	**414.50**	0.75	**0.18%**	712.25	315.50
Soybeans (cents/bu.)	CBOT	**1048.50**	4.00	**0.38**	1,560.00	805.00
Wheat (cents/bu.)	CBOT	**541.50**	-3.25	**-0.60%**	1,029.25	459.00
Live cattle (cents/lb.)	CME	**86.175**	1.125	**1.32**	108.600	81.900
Cocoa ($/ton)	ICE-US	**3,289**	42	**1.29**	3,510	1,994
Coffee (cents/lb.)	ICE-US	**135.95**	-0.70	**-0.51**	188.65	115.00
Sugar (cents/lb.)	ICE-US	**26.95**	-0.01	**-0.04**	27.49	11.91
Cotton (cents/lb.)	ICE-US	**75.60**	0.17	**0.23**	84.00	49.67
Crude palm oil (ringgit/ton)	MDEX	**2,663.00**	68	**2.62**	3,580	1,487
Cocoa (pounds/ton)	LIFFE	**2,250**	24	**1.08**	2,337	1,310
Robusta coffee ($/ton)	LIFFE	**1,332**	14	**1.06**	1,710	1,300
Copper (cents/lb.)	COMEX	**334.65**	0.15	**0.04**	365.00	135.50
Gold ($/troy oz.)	COMEX	**1096.20**	3.70	**0.34**	1,227.50	762.30
Silver (cents/troy oz.)	COMEX	**1684.50**	4.30	**0.26**	2,011.50	1,045.00
Aluminum ($/ton)	LME	**2,241.00**	-21.00	**-0.93**	2,283.00	1,288.00
Tin ($/ton)	LME	**16,790.00**	40.00	**0.24**	16,790.00	9,945.00
Copper ($/ton)	LME	**7,375.00**	54.00	**0.74**	7,375.00	3,085.00
Lead ($/ton)	LME	**2,411.00**	-14.00	**-0.58**	2,487.00	995.00
Zinc ($/ton)	LME	**2,595.50**	14.50	**0.56**	2,595.50	1,086.00
Nickel ($/ton)	LME	**18,550**	-380	**-2.01**	21,150	9,475
Crude oil ($/bbl.)	NYMEX	**79.36**	0.08	**0.10**	117.00	47.60
Heating oil ($/gal.)	NYMEX	**2.1156**	-0.0046	**-0.22**	3.5570	1.3816
RBOB gasoline ($/gal.)	NYMEX	**2.0529**	-0.0037	**-0.18**	2.1342	1.2304
Natural gas ($/mmBtu)	NYMEX	**5.532**	-0.153	**-2.69**	12.590	4.550
Brent crude ($/bbl.)	ICE-EU	**77.93**	-0.10	**-0.13**	145.00	50.00
Gas oil ($/ton)	ICE-EU	**641.50**	-0.75	**-0.12**	875.00	450.50

Source: Thomson Reuters; WSJ Market Data Group

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Currencies

London close on Jan. 1

AMERICAS	Per euro	In euros	Per U.S. dollar	In U.S. dollars
Argentina peso-a	5.4453	0.1836	3.8010	0.2631
Brazil real	2.4970	0.4005	1.7430	0.5737
Canada dollar	1.5072	0.6635	1.0521	0.9505
1-mo. forward	1.5072	0.6635	1.0521	0.9505
3-mos. forward	1.5072	0.6635	1.0521	0.9505
6-mos. forward	1.5075	0.6633	1.0523	0.9503
Chile peso	726.97	0.001376	507.45	0.001971
Colombia peso	2926.80	0.0003417	2043.00	0.0004895
Ecuador US dollar-f	1.4326	0.6980	1	1
Mexico peso-a	18.7610	0.0533	13.0958	0.0764
Peru sol	4.1388	0.2416	2.8890	0.3461
Uruguay peso-e	28.007	0.0357	19.550	0.0512
U.S. dollar	1.4326	0.6980	1	1
Venezuela bolivar	3.08	0.325074	2.15	0.465701
ASIA-PACIFIC				
Australia dollar	1.5967	0.6263	1.1145	0.8973
China yuan	9.7804	0.1022	6.8271	0.1465
Hong Kong dollar	11.1091	0.0900	7.7545	0.1290
India rupee	66.7806	0.0150	46.6150	0.0215
Indonesia rupiah	13502	0.0000741	9425	0.0001061
Japan yen	133.27	0.007504	93.03	0.010750
1-mo. forward	133.25	0.007505	93.01	0.010751
3-mos. forward	133.20	0.007508	92.98	0.010755
6-mos. forward	133.09	0.007514	92.90	0.010764
Malaysia ringgit-c	4.9052	0.2039	3.4240	0.2921
New Zealand dollar	1.9733	0.5068	1.3774	0.7260
Pakistan rupee	120.911	0.0083	84.400	0.0118
Philippines peso	66.258	0.0151	46.250	0.0216
Singapore dollar	2.0120	0.4970	1.4045	0.7120
South Korea won	1670.52	0.0005986	1166.08	0.0008576
Taiwan dollar	45.829	0.02182	31.990	0.03126
Thailand baht	47.792	0.02092	33.360	0.02998

EUROPE	Per euro	In euros	Per U.S. dollar	In U.S. dollars
Euro zone euro	1	1	0.6980	1.4326
1-mo. forward	1.0000	1.0000	0.6981	1.4325
3-mos. forward	1.0002	0.9998	0.6982	1.4324
6-mos. forward	1.0005	0.9995	0.6984	1.4318
Czech Rep. koruna-b	26.444	0.0378	18.459	0.0542
Denmark krone	7.4416	0.1344	5.1945	0.1925
Hungary forint	270.93	0.003691	189.12	0.005288
Norway krone	8.2850	0.1207	5.7832	0.1729
Poland zloty	4.0828	0.2449	2.8499	0.3509
Russia ruble-d	43.427	0.02303	30.314	0.03299
Sweden krona	10.2575	0.0975	7.1601	0.1397
Switzerland franc	1.4825	0.6746	1.0348	0.9664
1-mo. forward	1.4822	0.6747	1.0346	0.9665
3-mos. forward	1.4817	0.6749	1.0343	0.9669
6-mos. forward	1.4804	0.6755	1.0334	0.9677
Turkey lira	2.1469	0.4658	1.4986	0.6673
U.K. pound	0.8859	1.1288	0.6184	1.6171
1-mo. forward	0.8861	1.1286	0.6185	1.6168
3-mos. forward	0.8864	1.1281	0.6188	1.6161
6-mos. forward	0.8869	1.1275	0.6191	1.6152
MIDDLE EAST/AFRICA				
Bahrain dinar	0.5401	1.8515	0.3770	2.6525
Egypt pound-a	7.8575	0.1273	5.4848	0.1823
Israel shekel	5.4016	0.1851	3.7705	0.2652
Jordan dinar	1.0146	0.9856	0.7083	1.4119
Kuwait dinar	0.4112	2.4317	0.2871	3.4837
Lebanon pound	2152.48	0.0004646	1502.50	0.0006656
Saudi Arabia riyal	5.3733	0.1861	3.7508	0.2666
South Africa rand	10.5855	0.0945	7.3890	0.1353
United Arab dirham	5.2619	0.1900	3.6730	0.2723
SDR -f	0.9138	1.0943	0.6379	1.5677

a-floating rate b-commercial rate c-government rate c-commercial rate d-Russian Central Bank rate f-Special Drawing Rights from the International Monetary Fund ; based on exchange rates for U.S., British and Japanese currencies.
Note: Based on trading among banks in amounts of $1 million and more, as quoted by Thomson Reuters.

Major stock market indexes

Stock indexes from around the world, grouped by region. Shown in local-currency terms.

Price-to-earnings ratio*	Region/Country	Index	PREVIOUS SESSION Close	Net change	Percentage change	PERFORMANCE Yr.-to-date	52-wk.
32	**ASIA-PACIFIC**	**DJ Asia-Pacific**	123.05	0.58	**0.47%**	31.5%	
...	Australia	**SPX/ASX 200**	4870.64	37.33	**0.77**	30.9	30.9%
31	China	**CBN 600**	29052.80	157.97	**0.55**	96.8	
20	Hong Kong	**Hang Seng**	21872.50	375.88	**1.75**	52.0	52.0
20	India	**Sensex**	17464.81	120.99	**0.70**	81.0	76.4
...	Indonesia	**Jakarta Composite**	2534.356		**Closed**	87.0	87.0
...	Japan	**Nikkei Stock Average**	10546.44		**Closed**	19.0	19.0
...		**Topix**	907.59		**Closed**	5.6	5.6
...	Malaysia	**Kuala Lumpur Composite**	1272.78	1.66	**0.13**	45.2	45.2
...	New Zealand	**NZSX-50**	3230.145	9.234	**0.29**	18.9	18.9
9	Pakistan	**KSE 100**	9386.92	-121.03	**-1.27%**	60.0	63.2
15	Philippines	**Manila Composite**	3052.68		**Closed**	63.0	63.0
...	Singapore	**Straits Times**	2897.62	17.86	**0.62**	64.5	64.5
11	South Korea	**Kospi**	1682.77		**Closed**	49.7	49.7
20	Taiwan	**Weighted**	8188.11	75.83	**0.93**	78.3	78.3
10	Thailand	**SET**	734.54		**Closed**	63.2	63.2
50	**EUROPE**	**DJ Stoxx 600**	253.16		**Closed**	28.9	28.9
22		**DJ Stoxx 50**	2578.92		**Closed**	25.6	25.6
62	**Euro Zone**	**DJ Euro Stoxx**	274.78		**Closed**	23.3%	23.3%
20		**DJ Euro Stoxx 50**	2966.24		**Closed**	20.9	20.9
19	Denmark	**OMX Copenhagen**	315.70		**Closed**	39.6	39.6
20	Finland	**OMX Helsinki**	6456.13		**Closed**	19.5	19.5
19	France	**CAC-40**	3936.33	0.83	**0.02%**	22.3	22.3
21	Germany	**DAX**	5957.43		**Closed**	23.8	23.8
17	Italy	**FTSE MIB**	23248.39		**Closed**	19.5	19.5
...	Netherlands	**AEX**	335.33	0.19	**0.06**	36.3	36.3
...	Russia	**RTSI**	1444.61	17.68	**1.24**	128.6	128.6
11	Spain	**IBEX 35**	11940.0		**Closed**	29.8	29.8
15	Switzerland	**SMI**	6545.91		**Closed**	18.3	18.3
...	Turkey	**ISE National 100**	52825.02	1156.61	**2.24**	96.6	96.6
15	U.K.	**FTSE 100**	5412.88	15.02	**0.28**	22.1	22.1
21	**AMERICAS**	**DJ Americas**	296.49	-2.50	**-0.84%**	31.1	
...	Brazil	**Bovespa**	68588.41		**Closed**	82.7	82.7
...	Argentina	**Merval**	2320.73		**Closed**	115.0	115.0
21	Mexico	**IPC**	32120.47	-328.27	**-1.01**	43.5	43.5

*P/E ratios use trailing 12-months, as-reported earnings
European and Americas index data are as of 5:00 p.m. ET.

Sources: Thomson Reuters; WSJ Market Data Group

Reuters Group PLC is the primary data provider for several statistical tables in The Wall Street Journal, including foreign stock quotations, futures and futures options prices, and foreign exchange tables. Reuters real-time data feeds are used to calculate various Dow Jones Indexes.

Dow Jones and Dow Jones Stoxx Indexes

Dividend yield*	Price-to-earnings ratio*	Dows Jones Index	Last	Net change	PERFORMANCE Daily	Year-to-date	52-wk.	Three-yr., annualized
2.17%	21	**DJ Global Index**	226.93	-0.24	**-0.24%**	32.0%	-0.1%	-6.5%
1.89	21	**Global DOW**	1990.00	3.82	**3.82**	30.3	0.2	-2.4
2.34		**Asia/Pacific 600**	114.68	0.30	**0.30**	20.2	0.3	-7.9
1.75	16	**Emerging Markets**	279.92	2.31	**2.31**	77.7	0.8	3.4
2.11	32	**Asia/Pacific**	123.05	0.58	**0.58**	31.5	0.5	-5.6
2.36	14	**Asia/Pacific ex-Japan**	315.43	3.50	**3.50**	70.1	1.1	0.8
2.50	23	**Southeast Asia**	160.89	1.56	**1.56**	77.1	1.0	2.6
0.81	31	**CBN China 600** -c	29052.80	157.97	**157.97**	96.8	0.6	23.1
0.83	34	**Shanghai**	387.68	2.40	**2.40**	96.6	0.6	23.2
0.58	48	**Shenzhen**	416.51	2.54	**2.54**	119.5	0.6	30.1
2.18	20	**China Offshore 50**	4077.93	81.33	**81.33**	53.0	2.0	6.1
8.44	10	**Australia LPT** -c, d	1162.93	16.72	**16.72**	6.2	1.5	-21.8
2.07%	15	**Islamic Market**	1981.79	1.47	**1.47%**	34.2%	0.1%	-1.5%
2.36	16	**Islamic Market 100**	2128.49	-3.93	**-3.93**	22.1	-0.2	-2.3
9.66	15	**Bahrain**	121.74	0.91	**0.91**	-19.9	0.8	-13.5
2.84	33	**Kuwait**	194.69	-2.37	**-2.37**	-9.4	-1.2	-16.2
2.61	20	**Sustainability**	1012.79	1.37	**1.37**	32.0	0.1	-7.3
2.72	50	**Stoxx 600**	272.06	1.66	**1.66**	32.1	0.6	-8.9
4.74	17	**Stoxx Select Div 30**	1795.95	6.03	**6.03**	32.9	0.3	-21.2
3.98	23	**Euro Stoxx Sel Div 30**	2127.35	5.11	**5.11**	30.6	0.2	-16.9
1.71	30	**DJ U.S. TSM**	11497.41	-117.00	**-117.00**	26.5	-1.0	-6.9
5.23	12	**U.S. Select Dividend** -d	650.64	-8.98	**-8.98**	11.1	-1.4	-10.1
4.38		**U.S. REIT**	145.35	-2.68	**-2.68**	19.9	-1.8	-18.2
		DJ-UBS Commodity -p	139.19	-0.28	**-0.28**	18.7	-0.2	-5.8

*Fundamentals are based on data in U.S. dollar. Footnotes: c-in local currency. d-dividends reinvested. p-previous day. Note: All data as of 11:30 a.m. ET.

Source: DowJones Indexes

Cross rates

U.S.-dollar and euro foreign-exchange rates in global trading

U.S.	US$	A$ 1.115	£ 0.618	C$ 1.052	YUAN 6.827	EURO 0.698	HK$ 7.754	RUPEE 46.615	RUPIAH 9425.07	YEN 93.025	NZ$ 1.377	WON 1166.07	RINGGIT 3.424	PH. PESO 46.250	S$ 1.404	S FRANC 1.035	TW$ 31.990	BAHT 33.360
Australia	0.897		0.555	0.944	6.126	0.626	6.958	41.825	8456.64	83.467	1.236	1046.26	3.072	41.498	1.260	0.928	28.703	29.932
Britain	1.617	1.802		1.701	11.040	1.129	12.539	75.379	15240.81	150.426	2.227	1885.60	5.537	74.789	2.271	1.673	51.729	53.945
Canada	0.951	1.059	0.588		6.489	0.663	7.371	44.309	8958.77	88.423	1.309	1108.38	3.255	43.962	1.335	0.984	30.407	31.710
China	0.1465	0.163	0.091	0.154		0.102	1.136	6.828	1380.55	13.626	0.202	170.80	0.502	6.775	0.206	0.152	4.686	4.886
Euro	1.433	1.597	0.886	1.507	9.780		11.109	66.781	13502.36	133.268	1.973	1670.51	4.905	66.258	2.012	1.482	45.829	47.792
Hong Kong	0.129	0.144	0.080	0.136	0.880	0.090		6.011	1215.43	11.996	0.178	150.37	0.442	5.964	0.181	0.133	4.125	4.302
India	0.0215	0.0239	0.0133	0.0226	0.1465	0.0150	0.1664		202.19	1.9956	0.0295	25.01	0.0735	0.9922	0.0301	0.0222	0.6863	0.7156
Indonesia	0.0001	0.0001	0.0001	0.0001	0.0007	0.0001	0.0008	0.0049		0.0099	0.0001	0.12	0.0004	0.0049	0.0001	0.0001	0.0034	0.0035
Japan	0.011	0.012	0.007	0.011	0.073	0.008	0.083	0.501	101.32		0.015	12.54	0.037	0.497	0.015	0.011	0.344	0.359
New Zealand	0.726	0.809	0.449	0.764	4.956	0.507	5.630	33.842	6842.60	67.536		846.57	2.486	33.578	1.020	0.751	23.225	24.219
South Korea	0.0009	0.0010	0.0005	0.0009	0.0059	0.0006	0.0067	0.0400	8.08	0.0798	0.0012		0.0029	0.0397	0.0012	0.0009	0.0274	0.0286
Malaysia	0.292	0.326	0.181	0.307	1.994	0.204	2.265	13.614	2752.65	27.169	0.402	340.56		13.508	0.410	0.302	9.343	9.743
Philippines	0.022	0.024	0.013	0.023	0.148	0.015	0.168	1.008	203.79	2.011	0.030	25.21	0.074		0.030	0.022	0.692	0.721
Singapore	0.712	0.794	0.440	0.749	4.861	0.497	5.521	33.191	6710.86	66.236	0.981	830.27	2.438	32.931		0.737	22.778	23.753
Switzerland	0.966	1.077	0.598	1.017	6.597	0.675	7.494	45.047	9108.11	89.897	1.331	1126.86	3.309	44.695	1.357		30.914	32.238
Taiwan	0.031	0.035	0.019	0.033	0.213	0.022	0.242	1.457	294.63	2.908	0.043	36.45	0.107	1.446	0.044	0.032		1.043
Thailand	0.030	0.033	0.019	0.032	0.205	0.021	0.232	1.397	282.53	2.789	0.041	34.95	0.103	1.386	0.042	0.031	0.959	

Source: Thomson Reuters via WSJ Market Data Group

MSCI indexes

Developed and emerging-market regional and country indexes from MSCI Barra as of January. 01, 2010

Dividend yield	Price-to-earnings ratio	Morgan Stanley Index	Last	LOCAL-CURRENCY PERFORMANCE Daily	YTD	52-wk.
...%	...	**ALL COUNTRY (AC) WORLD***	299.44	-0.09%	**31.5%**	31.5%
...	...	**World (Developed Markets)**	1,168.47	-0.24	**27.0**	27.0
...	...	**World Small Cap**	190.16	-0.46	**41.7**	41.7
...	...	**Kokusai (World ex-Japan)**	1,159.65	-0.22	**30.0**	30.0
...	...	**EAFE**	1,580.77	0.48	**27.7**	27.7
...	...	**Emerging Markets (EM)**	989.47	0.90	**74.5**	74.5
...	...	**AC ASIA PACIFIC EX-JAPAN**	416.54	1.19	**68.4**	68.4
...	...	**AC Far East ex-Japan**	449.97	1.11	**65.0**	65.0
...	...	**Japan**	568.42	0.00	**7.3**	7.3
...	...	**China**	64.81	2.11	**58.9**	58.9
...	...	**China A (China Domestic)**	3,381.81	0.52	**95.0**	95.0
...	...	**Hong Kong**	10,178.29	0.96	**55.3**	55.3
...	...	**India**	707.10	0.51	**91.5**	91.5
...	...	**Korea**	480.77	0.00	**56.6**	56.6
...	...	**Malaysia**	469.80	0.08	**46.2**	46.2
...	...	**Singapore**	1,624.88	0.59	**63.0**	63.0
...	...	**Taiwan**	295.94	0.97	**70.7**	70.7
...	...	**Thailand**	301.70	0.00	**63.0**	63.0
...	...	**Australia**	1,001.13	0.78	**30.8**	30.8
...	...	**New Zealand**	87.20	-0.02	**14.9**	14.9
...	...	**US BROAD MARKET**	1,237.00	-1.02	**25.9**	25.9
...	...	**EUROPE**	88.28	0.30	**27.2**	27.2

*Twenty-three developed and 26 emerging markets

Source: MSCI Barra

MARKETS LINEUP

Moving the markets

At right, Japan's benchmark stock index and the biggest movers among the larger Asian stocks indexes and stocks last year. The charts show the percentage change in each index's or stock's value, rather than the point change, for purposes of comparison. The index level or stock price is indicated on each axis. All indexes and stocks are shown in local currency terms.

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Asian index movers...

Nikkei Stock Average

Japan 10,546.44

▲ **19.04% or 1,686.88**

This was the first year that the market rose in three years. The index surged nearly 13% in December on a stronger yen, although it fell short of its August high.

Stock	Close	YTD Net	YTD %
Nissan Motor Co	810	490	153.12
Taiyo Yuden	1,194	694	138.80
Hitachi Const	2,415	1,377	132.66
Toho Zinc	457	242	112.56
Nsk	680	348	104.82

CBN 600

China 29052.80

▲ **96.77% or 14287.65**

The index posted its best year since 2007 as the world's economic recovery took hold. But the market cooled for much of December; this index rose just 1.7% in the month.

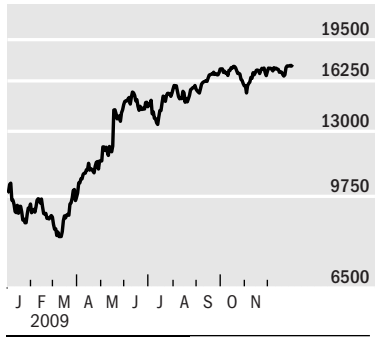
Stock	Close	YTD Net	YTD %
Changchai	14.17	11.98	547.03
Elec-Tech Int	17.13	14.32	509.61
Zhongtian Urban	18.53	15.43	497.74
Neptunus Bioen	16.99	13.88	446.30
Shuangliang	21.19	17.31	446.13

Sensex

India 17464.81

▲ **81.03% or 7,817.50**

The good: the biggest percentage-point gain since 1991 and the seventh yearly gain in the last eight. The bad: even so, the index didn't make up all of 2008's 52% plunge.



Stock	Close	YTD Net	YTD %
Tata Motors-A	792.60	633.55	398.33
Mah Mah-A	1,080.80	805.95	293.23
Sterlite (I)-A	861.65	600.90	230.45
Tata Consult-A	749.75	510.70	213.64
Hindalco-A	160.75	109.10	211.23

Straits-Times

Singapore 2897.62

▲ **64.49% or 1,136.06**

This benchmark was among the region's top performers, reflecting confidence about the global recovery. The index ended the year at its highest point since Aug. 1, 2008.

Stock	Close	YTD Net	YTD %
Noble Group	3.25	2.23	218.63
Genting Spore	1.30	0.87	202.33
Jardine C&C	27.00	17.50	184.21
Golden Agri	0.51	0.30	142.86
Olam Inter	2.66	1.51	131.30

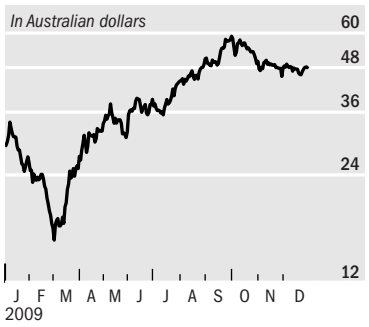
Asian stocks in the news

Macquarie Grp

Australia A$48.40

▲ **68.0% or A$19.59**

The investment bank distanced itself from the listed-infrastructure-fund model that had become its hallmark.



Price-to-earnings ratio	**20**
Earnings per share, past four quarters	**2.43**
Dividend yield	**1.8**

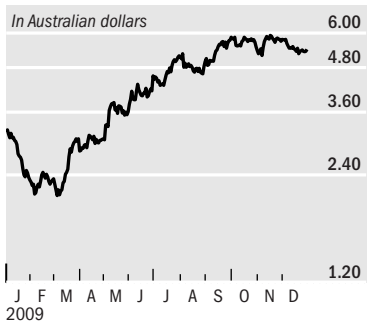
	PERCENTAGE CHANGE Daily	1 wk.	52 wks
Financial Services	**0.7%**	1.1%	37.5%
Macquarie Grp	**0.9%**	0.8%	68.0%

David Jones

Australia A$5.40

▲ **69.8% or A$2.22**

The retailer, which targets more affluent customers, saw sales momentum going into the key Christmas period.



Price-to-earnings ratio	**17**
Earnings per share, past four quarters	**0.32**
Dividend yield	**3.1**

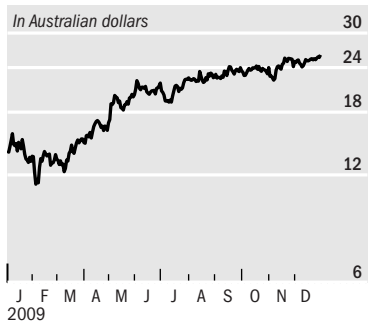
	PERCENTAGE CHANGE Daily	1 wk.	52 wks
Retail	**0.6%**	2.0%	18.8%
David Jones	**1.3%**	1.3%	69.8%

Orica

Australia A$26.05

▲ **86.3% or A$12.07**

The world s largest maker of explosives profited from rising demand for explosives and other mining services.



Price-to-earnings ratio	**18**
Earnings per share, past four quarters	**1.45**
Dividend yield	**2.2**

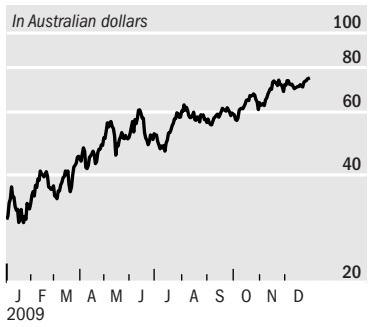
	PERCENTAGE CHANGE Daily	1 wk.	52 wks
Chemicals	**0.3%**	-0.6%	44.2%
Orica	**1.7%**	2.2%	86.3%

RioZim Ltd

Australia A$74.89

▲ **149.9% or A$44.92**

Miners were big beneficiaries of the boom in metals prices. Copper, for one, more than doubled.



Price-to-earnings ratio	**162**
Earnings per share, past four quarters	**0.46**
Dividend yield	**none**

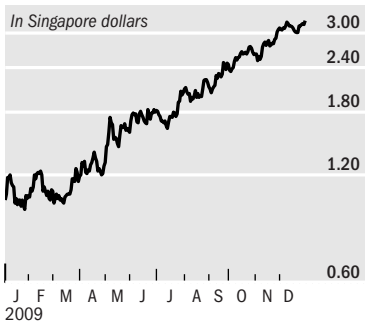
	PERCENTAGE CHANGE Daily	1 wk.	52 wks
Basic Resources	**1.0%**	1.9%	68.2%
RioZim Ltd	**0.3%**	1.9%	149.9%

Noble Grp

Singapore S$3.25

▲ **218.6% or S$2.23**

China s sovereign-wealth fund took a 15% stake in this commodities trader. Plus, commodities prices have soared.



Price-to-earnings ratio	**12**
Earnings per share, past four quarters	**0.26**
Dividend yield	**2.1**

	PERCENTAGE CHANGE Daily	1 wk.	52 wks
Indus Gds & Svcs	**0.5%**	0.3%	42.7%
Noble Grp	**2.5%**	3.5%	218.6%

Konami

Japan ¥1,656

▼ **27.4% or ¥624**

The maker of computer game software lost money in the last fiscal year and has had a rocky time this year as well.

Price-to-earnings ratio	**15**
Earnings per share, past four quarters	**111.50**
Dividend yield	**3.3**

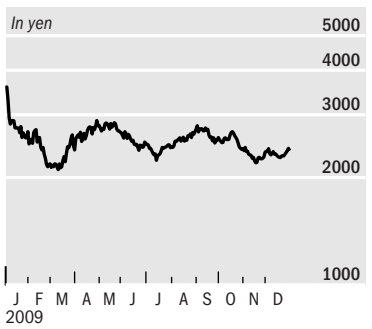
	PERCENTAGE CHANGE Daily	1 wk.	52 wks
Personal & Hshld Gds	**0.2%**	-0.8%	19.8%
Konami	**-0.7%**	1.2%	-27.4%

Nippon Paper Grp

Japan ¥2,380

▼ **33.5% or ¥1200**

Demand for paper in Japan plunged in the wake of the credit crunch. This company posted its first fiscal-year loss in eight years.



Price-to-earnings ratio	**13**
Earnings per share, past four quarters	**189.20**
Dividend yield	**3.4**

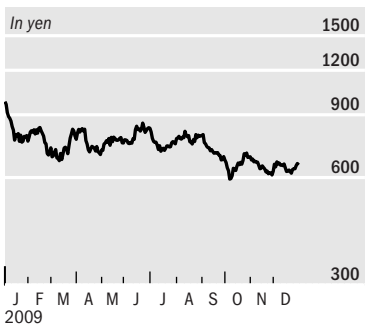
	PERCENTAGE CHANGE Daily	1 wk.	52 wks
Basic Resources	**1.0%**	1.9%	68.2%
Nippon Paper Grp	**-1.4%**	2.4%	-33.5%

Uny

Japan ¥651

▼ **33.6% or ¥329**

The retailer, which has seen earnings fall this year, is allying itself with trading house Itochu.



Price-to-earnings ratio	**none**
Earnings per share, past four quarters	**-5.00**
Dividend yield	**2.8**

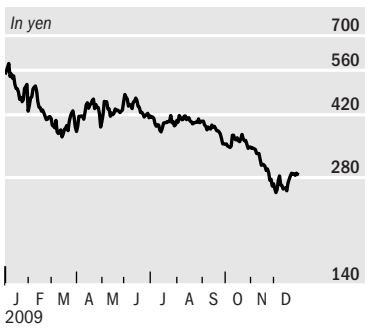
	PERCENTAGE CHANGE Daily	1 wk.	52 wks
Retail	**0.6%**	2.0%	18.8%
Uny	**-0.9%**	2.5%	-33.6%

Nippon Yusen K.K.

Japan ¥285

▼ **47.7% or ¥260**

The shipper has lost money for three straight quarters amid a slump in cargo transport demand and weakness in freight charges.



Price-to-earnings ratio	**none**
Earnings per share, past four quarters	**-27.60**
Dividend yield	**0.7**

	PERCENTAGE CHANGE Daily	1 wk.	52 wks
Indus Gds & Svcs	**0.5%**	0.3%	42.7%
Nippon Yusen K.K.	**-0.3%**	-0.7%	-47.7%

Japan Airlines

Japan ¥67

▼ **68.4% or ¥145**

Japan's flagship carrier lost $1.5 billion in the six months and investors ended the year fearing a bankruptcy filing.

Price-to-earnings ratio	**none**
Earnings per share, past four quarters	**-98.80**
Dividend yield	**none**

	PERCENTAGE CHANGE Daily	1 wk.	52 wks
Travel & Leisure	**0.2%**	-0.6%	3.6%
Japan Airlines	**-23.9%**	-32.3%	-68.4%

HEARD ON THE STREET

Email: heard@wsj.com FINANCIAL ANALYSIS & COMMENTARY WSJ.com/Heard

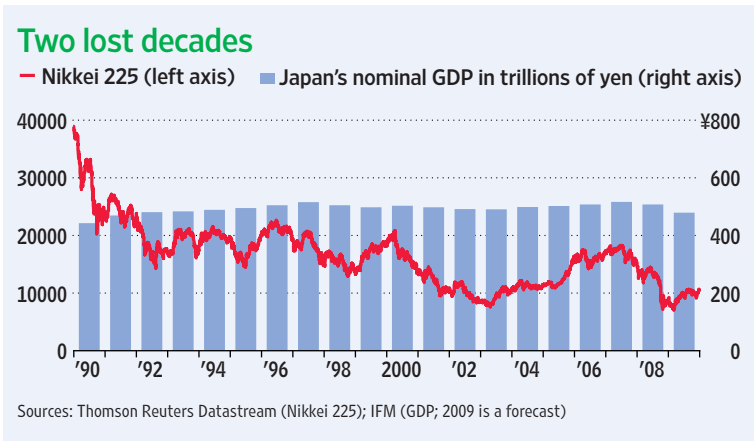
Inaction Inc: Japan risks 3rd lost decade

"We regret to inform you that nothing has been decided."

This pretty much sums up Japan's story over the past two decades. Policy makers and corporate leaders have muddled through without conflict, innovation or having to take responsibility for tough decisions.

The results speak for themselves. Japan marked the 20th anniversary of its asset bubble last week, with the Nikkei Stock Average of 225 companies ending 2009 at one-quarter of where it stood on Dec. 29, 1989. Nominal gross domestic product in yen terms is around the level it was shortly after the bubble popped.

The indecision continues. Japan's new administration ended the year by unveiling a plan to raise nominal annual gross-domestic-product growth to an average of 3%-plus over the next 10 years. A detailed road map won't be available until June. But hitting this and other targets—which include the creation of new demand in the environmental, health and tourism sectors worth $1.1 trillion—will be tough.



Sources: Thomson Reuters Datastream (Nikkei 225); IFM (GDP; 2009 is a forecast)

Critically, the government's presumed rate of inflation of 1% is difficult to picture. Deflation is expected to continue for several years and Japan still has no plan to overcome it.

How policies will be funded is another question. Already, a government that pledged to make highways free and slash gasoline taxes without having to increase borrowing is backtracking.

On the corporate side, for every successful firm like **Honda Motor**, there are dozens of companies lulled into complacency by a huge domestic market and silent shareholders.

Some firms, such as **Hitachi** and its some 700 subsidiaries, have too many marginal or money-losing businesses. Others hang on to clearly non-core assets. Instant-ramen maker **Nissin Foods** owns a golf course.

This isn't to say Japan can't overcome its challenges.

It has done so in the past, rebuilding after World War II and becoming the world's most energy-efficient nation after the 1970s oil shocks. The country has a high-quality work force, leading technology and good basic education and infrastructure. Japan Inc. still makes things other countries want—in a way rivals still can't. And Japan ranks ahead of the U.S., U.K., Germany and Italy on measures such as longevity and availability of health care and education, the United Nations says.

But continuing inaction threatens to erode everything. Japan, which looks set to cede its position as the world's second-largest economy to China, simply needs higher growth.

Not least, it needs to fund the burgeoning pension and health costs of a rapidly increasing retiree population, with the earnings of a rapidly shrinking workforce. Concern about the pension program's viability is a major drag on consumption too.

Even here, Japan's lawmakers have failed to act. Benefits need to be cut or burdens on the population, such as sales taxes, need to rise to pay for the ballooning costs. Investment returns also need to increase. Yet already, the new government has delayed a final decision on this to 2013.

A new decade should herald a fresh start, but the more likely outcome may be more of the same: a Japan unable to take radical action.

—James Simms

Most banks tread water in Asia; splash is China

At this rate, it is going to take several global financial crises to meaningfully change the banking landscape in Asia.

Two years on, it is difficult to spot significant changes in the competitive positions of Asian banks. Instead, the crisis has been marked by consolidation of already strong positions. Those looking to capitalize on the misfortune of peers have found themselves frustrated by cross-border complications, hefty price tags and clashing cultures. Those that have gained prominence have done so thanks to the region's most important emerging market, China.

Eager to expand, **Australia & New Zealand Bank** picked up useful assets in places like Taiwan, Singapore and Hong Kong in a $550 million deal as **Royal Bank of Scotland Group** withdrew. But they are relatively small, and regulatory challenges mean RBS's jewels—in India and China—remain unsold.

Seemingly transformational deals, meanwhile, are yet to prove themselves. **Nomura Holdings** hopes its 2008 purchase of Lehman Brothers Asia will redefine the bank as a regional leader. For now, though, Nomura remains reliant on Japan. The bank topped Dealogic's Asian rankings for investment-banking revenue this year, as in 2008. But remove Japan, and Nomura drops out of the top 10.

Singapore's **Oversea-Chinese Banking** vaulted into the top 10 among Asian private banks with the purchase of **ING Groep**'s Asian wealth-management business, albeit for a hefty price. At nearly $1.5 billion, it was more than double the valuation, based on assets under management, than ING's similar Swiss business fetched.

Traditional regional heavyweights such as **HSBC Holdings** and **Standard Chartered** weathered the crisis well and solidified their leadership positions. And troubled Western banks largely avoided problems in Asia. **UBS** topped investment-banking league tables in Asia outside Japan for the second year running, while increasing income from the region 60%. At **Citigroup**, Asia remains a vital profit engine.

The biggest winners, though, were China's giants, which expanded on the back of a strong domestic economy and recovering capital markets rather than by acquisition. **China International Capital** and **Citic Securities** make nearly all their money in China. China's domestically focused retail banks, led by **Industrial & Commercial Bank of China**, ended the decade among the world's largest by market capitalization.

Like the Japanese banks, Chinese institutions have become giants without fundamentally altering the regional landscape, or even leaving home.

—Andrew Peaple

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